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ACROSS THE EDITORS DESK

A couple of our correspondents have referred to the absence of this column of drivel in recent issues (bless them!) which gives us courage to set forth on a little flight of fancy, to occupy a few minutes of your valuable time and take up a few valuable column inches of space in an otherwise valuable publication.

In this age of "business consultants" we don't hear much reference to the original "efficiency experts", but at a recent after-dinner gab-fest, one budgetman present was telling about an experience of long ago when he indulged in a fulfillment of an ambition to give one of those office experts a pretty hard time. It seems this was one of those cases where the efficiency firm had sold their services to the top guy ... who probably signed up to get the salesman off his back, said "Go ahead and see what you might do with our accounting system", and then promptly took off on vacation. The knowledge that the boss wasn't there was what gave our hero the courage to ... well, here's the way he told it to us:

"Good morning . . . Mr. Doe?"

"Yes. Good morning."

"I'm Mr. Smith. Your president, Mr. Jones, has hired my firm to study your accounting system and install some money-saving procedures."

"Yes?"

"I'm here to start. May I sit down?"

"Oh .. sure. Right there. Just put that junk up on the desk."

"Thank you. Now ... tell me just what your department does".

"Why?"

"So I can analyze your operations, and see where we can save you money".

"What makes you think you can save me money?"

"Why, in every company we've served, we've been able to save them money on everyday office procedures".

"Yes?"

"And we can save you money, too."

"How do you know?"

"Our last job, with Whoozis Company, we saved them over $20,000 a year."

"So?"

"Like I said, we save money for every firm we serve."

"And you want to know just what this department does."

"Yes; just start with an outline of the principal activities".

"Why?"

"I've already said! So I can analyze your operations, and save you money! Can I see your department organization chart, please?"

"Organization chart? Let's see, I think I have..had.. one around here some-place. H'mm...just saw it not long ago, I believe."

"Do you mean you don't have your department organization chart right at your finger tips?"

"Had one here somewhere .... nope, not there, either. What did you say you want it for?"

"Mr. Doe, it seems to me there is some inefficiency starting right in your office."

"Inefficiency? Because I can't find an organization chart? Man, I know every man and girl out there, what they do, when, for how long, and how well. Are you telling me I'm inefficient just because I can't find the confounded piece of paper it's written down on!"

"Oh no, not at all. But it seems you would have such a chart right handy."

"I'll have the girl draw one up. SHE knows it by

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CAPITAL EXPENDITURE MANAGEMENT

By: Donald L. Cartland

Assistant Controller, A. B. Dick Company, Chicago, Illinois

Every day one more company adds Capital Expenditures to its Budget Program, as the importance of programming this important function continues to grow; here is an illuminating article summarizing many of the important aspects of Capital Expenditure control, of equal interest to budget men just starting or thoroughly experienced in this phase of budgeting. Based on a talk presented by Mr. Cartland before the Milwaukee Chapter, NSBB.

Capital expenditures have received considerable attention recently in technical publications, in professional society discussion meetings, in the classes of universities offering courses in advanced management techniques, and in study groups and seminars such as those conducted by the American Management Association. The purpose of this article is to summarize the problems and basic considerations involved, to present material which may help you in developing your own ideas on the subject, and to point out how you might be able to apply them to your own company and make a real contribution in connection with the management of capital expenditures.

Summary of Requirements for Capital Expenditure Management

From analysis of the material on the subject, it seems that any really complete program for the management of capital expenditures should include, as a minimum, the following elements:

1. Provision for the determination of opportunities for profitable capital investment.
2. Coordination with long and short range budgeting, financial programming, new product planning, and the planning for expansion of markets.
3. Justification for proposed capital expenditures, and provision for determination of order of preference, or priority.
4. Provision for reporting capital expenditures incurred as compared with plans, and for post-audit of investment decisions.

Not very many companies are currently using all four phases of a complete management program for capital expenditures. Perhaps you can be influential in broadening your company's present program. The need for action is present in almost every company. Someone will find a way to crystallize this need into the required action - perhaps it will be you.

Let us examine, in more detail, each of the elements mentioned above. All are closely interrelated, but some segregation for the purpose of review may be helpful.

Determination of Opportunities for Profitable Capital Investment

First, there appears to be a real need for a systematic and creative search for opportunities for profitable capital investment which will increase the long range profit possibilities of the company.

The survival and prosperity of the enterprise is a basic responsibility of management, it is really the reason for its existence. Management is further responsible for the establishment of a proper balance between the activities which will result in profits today, and the activities which will result in profits next year - ten years from now - and on into the future.

Research for new products and a search for broadening market areas, are, of course, important phases of this search for investment opportunities which will result in future profits. This article will not attempt to cover these phases of management operation.

Another phase of this search for investment opportunities should be a systematic survey of replaceable capital equipment. This is done by very few companies. It needs to be done in many, many companies. In A. B. Dick Company, for the last several years, our Master Mechanic has made a complete and systematic survey of equipment needs as a part of our financial planning program.

How can you help get such a program started? If you are doing long range capital planning or financial planning, it becomes almost obvious that it is necessary to have a systematic review of the capital equipment which should be replaced. Your company should take timely advantage of profitable equipment replacement opportunities, but to do so, top management must be informed, and there must be a program for getting it done.

Coordination with Long and Short Range Budgeting, Financial Programming, New Product Planning, and Planning for Expansion of Markets

Next, it is very important that equipment planning, and other capital investment programming, be coordinated with:

1. Profit and loss budgets, both short range and long range.
2. Overall financial planning, which might be called a financial program.
3. Planning for new products.
4. Planning for the development and broadening of markets.

Coordination of these factors can be done through the use of a financial program, presented in the form of pro-forma balance sheets, with balances set forth for three to five years in the future.

In preparation of this data, planning must be developed sufficiently to enable it to be expressed in dollars. Future earnings must be forecast or estimated. Receivables and inventories need to be provided for, based on planned product and market expansion programs. Expenditures for fixed asset additions must be determined, a mere blanket provision is not sufficient. Real planning assumes:

1. A comprehensive analysis of investment opportunities.
2. Approval by top management.
3. The determination of the worth of individual proposals.

The use of a long range financial program is an invaluable tool to management planning. If the cash position shown by these pro-forma balance sheets indicates that additional capital will be required, it provides management with the time necessary to either change the planning program, possibly deferring some expenditures, or to provide the necessary funds either through equity capital or long-term borrowings.

Justification For Proposed Capital Expenditures, and Determination of Order of Preference, or Priority, when required

Several articles have appeared in recent publications about methods of justification for proposed capital expenditures. From the literature available the writer has tried to determine the present practices of companies and to review the methods of justification which are available.

Most businesses, it would appear, rely on "sound business judgment" or "expert opinion" to determine when capital replacements should be made. There is nothing wrong with this method, and if the results are good, the company should move slowly before attempting some other method. However, it would appear that the variation between different companies using this method indicates that there is probably much room for improvement. As a very simple illustration, let us look at the replacement of automobiles. Some companies replace them the end of each year, others at the end of two years, still others at the end of three years, others after a certain number of miles, etc. It is indeed unlikely that all of these various methods are the best method in each case.

A change in thinking about terms is probably necessary. Perhaps we should think about the displacement, rather than the replacement, of capital equipment. Very seldom do we purchase any equipment which simply replaces the old equipment. Usually the new displaces the old in the sense that the new does more, operates faster and better, is more versatile, has built-in quality to compensate for the reduced availability of skilled operators, and is more adaptable to modern manufacturing methods.

Shortage of Good Methods to Determine Justification

There are really few good tools, in general use, available to management to help in the decision to replace, or displace, capital equipment. We have made a great deal of progress in other tools to aid management. For example, we have developed:

1. Operating budgets including flexible budgets.
2. Time studied standards for the determination of standard costs, pay scales and incentive bonus compensation.
3. Job evaluation, merit rating, and salary structure studies to help in personnel management.
4. Methods of management training for developmentof management personnel.
5. And many other tools of modern management too numerous to mention.

However, in the field of capital expenditures, we have practically no good tools, at least no good tools which are understood and used by any large segment of industry. It has been said that there is one managerial technique in which the entrepreneur of a hundred years ago would feel very much at home, and that is in the technique of analyzing the replaceability of productive facilities. This suggests that either the techniques of 1850 were so well developed that no improvement could be made, or that improvements should be, but have not yet, been achieved. The writer doubts that the former is true, and feels certain that the latter is the case.

The problem deserves more consideration. Why are not better tools available for management to use in these cases? For one thing, it is a very difficult problem. It requires a coordination of effort between the engineering and the accounting professions which is not usually applied to the problem. The techniques of the two professions differ. The schooling methods and the every day problems are widely divergent. It is almost impossible to find both skills in the same individual, and a coordination of knowledge and effort must be accomplished.

The construction, or the use, of a good tool for capital equipment replacement problems requires an understanding of engineering terms and problems. It must take into account problems of machine operation, feeds and speeds, processing problems, built-in skill features, and effect on previous and subsequent operations. It must take into account direct and indirect labor costs, maintenance costs, tooling problems, including jigs, fixtures, cutters, cutting tools, grinding wheels, etc. It must take into account estimates of scrap probabilities and rework requirements, expected down-time, disposal value of machines, and estimated service life.

On the other hand, there is a definite need to reflect and understand accounting and financial terms and problems. There are, of course, very many, and to cite just a few, consider the application of fringe benefits, cost of vacation pay, social security, group insurance, medical service, profit sharing plans, and other benefits. In the use of this tool we must take into account problems of property taxes, income taxes, insurance costs, allocations of space charges, and allocations of many other costs included in factory overhead. In addition, determination must be made of a fair and equitable rate of interest to be applied on the capital used.

It is reasonably safe to assume that an individual possessing the knowledge and skills required by one group of problems would not have the necessary knowledge and skills to cope with the other group of items, unless he were specially trained along these lines.

However, there are methods available, although not yet in general use, which take into account the skills of both the engineer and the accountant, tools which can be used and understood by engineers, accountants and top management alike. These will be reviewed later in this article.

What happens if we don't replace, if no decisions are made? It would seem that this is very dangerous, and can cause the failure of the company through its inability to compete with others, and to continuously lower its costs. Henry Ford is credited with once having said "If you need a new machine and don't buy it, you pay for it without getting it."

Why are necessary replacements not made? It may be due, of course, to lack of capital, but on the other hand it may be due to poor organizational equipment policy. Capital replacement requires an understanding and a confidence in the procedures by top management, perhaps even by the members of the Board of Directors. Control of capital expenditures is customarily kept at a high level in the organization. In order to properly pass on proposals, top management or the Board must understand the problem, and must recognize the profit making potentials.

One defect should be noted which may exist in the usual procedure for capital expenditure approval. Not having full information or understanding of the problems involved, top management or the Board may reject several capital expenditure proposals. What are the consequences? Executives do not enjoy having their proposals rejected. It appears to reflect on their judgment and furthermore, wastes their time. When this happens too often, they frequently begin to limit their proposals. Only "absolute musts" or "sure fire items" are sent to

management for review. Consequently there are, of course, very few rejections. With this situation top management may be lulled to sleep and could believe that the mechanical situation is excellent when possibly the absolute reverse is true.

Why has not this problem been more acute heretofore? Why all of this sudden interest on the part of numerous authors on the problem of equipment replacement policies?

It can be theorized that the lack of good methods for evaluation has probably forced the use of executive opinion, and with undoubtedly much better results than with the use of the customary rule of thumb methods used in some cases.

Another factor having an important bearing on this is that ours have been a very rapidly growing economy. Production and facility expansion have required the continuous acquisition of new items. I would like to give you an example in the case of our own company. In 1947 we were faced with the problem of going into a new plant. What was the age of equipment in use at that time? In order to arrive at roughly comparable figures, the dollar totals of equipment acquired, by years, have been adjusted by a price index. At the beginning of 1948 the situation was something like this:

Less than five years old	13%
Five to nine years old	27%
Ten to fourteen years old	35%
Fifteen to nineteen years old	20%
Twenty years old or more	5%
	100%

In other words, only 40% of our equipment was less than ten years old, while 60% was more than ten years old. This situation, had it been allowed to continue, might have resulted in a very serious problem. However, the necessity of moving into a new plant with the obviously very opportune time to purchase new equipment, undoubtedly saved the day. Furthermore, a very comprehensive re-equipment program was adopted by our Master Mechanic. It may have been helped along somewhat by the installation of financial program planning during 1948, which was required because of the many proposed changes, and as a result of which the Master Mechanic was requested to prepare a detailed three year program. In any event, as a result, recently the situation was something like this:

Less than five years old	22%
Five to nine years old	54%
Ten to fourteen years old	8%
Fifteen to nineteen years old	12%
Twenty years old or more	4%
	100%

In other words, 74% of our equipment was then less than ten years old, while only 26% was more than ten years old.

This situation is not typical of industry in general, but I believe that our company is not alone. Expansion in recent years has been unprecedented. New facilities have been added rapidly. In addition, during the nineteen-thirties, we went through a long period of depression in which few machines were replaced. Then we went through a period of war years in which many machines could not be replaced. Something had to give, the equipment had to be replaced.

Some writers feel that companies are avoiding the issue when much of their capital replacement program is covered by "must have" or "no alternative" or "it must be done." It may be that, in many cases, these were statements of fact, that the companies were not avoiding the issue, that machines in many instances were so nearly worn out and rebuilding would be so expensive that they had to be replaced. There was really no alternative.

The problem of out-moded equipment is primarily a problem of age of industry or of the establishment. It is not a disease of youth, and therefore the situation has probably been helped somewhat by our quickly growing and greatly expanding economy.

On the other hand, and lest we think that everything is in pretty good shape, and that there isn't much to be concerned about, there were some rather shocking statistics developed from the "Seventh American Machinist Inventory of Metal working Equipment" as published in the "American Machinist - 1954 Production Planbook." This data is based on over 4,500 answers to questionnaires sent to every company in the metalworking industry.

The data has been summarized in many classifications, three of which are as follows:

1. Machine tools - which classification includes such items as grinding, drilling, milling, polishing and boring machines, lathes, shapers, planers, etc.
2. Metal forming equipment - which includes various types of presses, punching and shearing machines, bending and forming machines and similar items.
3. Other equipment - which includes welding and flame cutting machines, plating, material-heating and cleaning equipment, cranes, hoists and industrial power-driven trucks.

The survey shows the following information as to the age of equipment in use throughout the metalworking industry:

	Less than 10 years old	10 to 20 years old	Over 20 years old
Machine tools	26%	55%	19%
Metal-forming	17	58	25
Other equipment	50	40	10
Total	31	52	17

These percentages are very startling indeed when we consider that there are probably few machines over ten years old that are still so profitable and efficient that they should not be replaced by newer units. In the over 20 year old category there are occasionally machines retained for operations performed so infrequently that replacement is not justified. These items, however, could not account for the large percentages of equipment in use in that age category.

All of the factors discussed add up to the real need for a good capital expenditure management program, including a good and accepted method of equipment replacement justification, in order to obtain the needed approval of top management.

Available Tools

What tools are available, or what methods are there to determine justification of capital replacement, or displacement?

It is important to consider this phase of the problem in its proper perspective, keeping in mind the overall problem of capital expenditure management. Many published articles, today, start right in at this point. Without a clear concept of where the problem fits into the overall picture, the reaction of the casual reader is "That sounds good, but other factors are much more important in our case. We buy equipment because we have to, because we are committed to a program, because of our new products, new facilities, etc., etc." In other words, the reader applies the "must have" or "no alternative" approach to his thinking, and many give very little

attention to the techniques of the method for capital expenditure justification brought out in the article - it is never really considered in its proper perspective.

Let us review the possible tools available or methods used.

The Short Pay-Off Method

Probably the most popular justification method in use today is some variation of the short pay-off method. In this approach, in order to be approved, the equipment must "pay for itself" in a very short period of time, usually two to three years. There are many variations of this method, but they all result in raising a terrific barrier against the purchase of new equipment - or in other words, protect the aged mechanical assets by a veritable "Chinese Wall."

There are no good figures available on how much the popular use of this method is costing industry and our economy, but there are, no doubt, a tremendous number of mechanical monstrosities which have been shielded from replacement by the use of this device.

In no other investment, except those, perhaps, of a very speculative nature, do we expect to get our money back in dividends or profits in two or three years time. Why then, should we expect it of an investment in equipment?

There is no historical record of the reasons for the adoption of this illogical method. There is a theory, however, that the zeal of machinery salesmen may be responsible. The statement that the machine will "pay for itself" in three years, two years, or even six months, has apparently been repeated so often, and over so long a period of time, that it has been accepted as a standard by many companies. The writer believes that we should urge that the use of this method be discontinued, and above all, let us not recommend that our management adopt its use.

The Rate-of-Return Requirement

The next most popular method in use is the rate-of-return requirement method. There are many deviations of this method also, and we will have to limit our review to the one probably most prevalent.

In the usual case, depreciation on the investment is provided, and a rate-of-return requirement is established, perhaps at 15 or 20 percent. This percentage, however, is computed on the original, and not the average, investment, and when depreciation is provided, the average investment is only about half the original amount. Therefore, the 15 or 20 percent annual required return becomes a 30 or 40 percent annual return. This is a very handsome return, indeed, from so prosaic an investment as a piece of machinery.

In most instances, the method seems to be little better, and may be even worse, depending on the rates used, than the short pay-off method. It is believed that you should be very careful in recommending its adoption, and if it is in use in your company, study the details thoroughly to be sure that the effect is not to keep in use mechanized junk-heaps which should long ago have been relegated to the scrap pile.

The Investor's Method - The Discounted Cash Flow Method

At the annual conference of the National Society for Business Budgeting held in Milwaukee in 1953, Horace G. Hill, Jr. presented a research report on behalf of the Philadelphia Chapter of that organization, which was subsequently published in the booklet "Annals for 1953." In that report he explained a method of justification called the Investor's Method, and mentioned that it was practically identical to a method developed by Joel Dean. This method, called the Discounted Cash Flow Method has been presented in the Harvard Business Review, the issue of January - February, 1954," in an article entitled "Measuring the Productivity of Capital."

Under this method, the life-time cash receipts and disbursements, applicable to the proposed equipment, are discounted to present day values. Neither of the publications which I mentioned covers how the life-time earnings or receipts would be determined. The articles both begin with the assumption that this has already been done.

This method has quite a few advocates. The difficulty of establishing accurate figures on life-time earnings is mitigated, to some extent, by the fact that the later years become less important in the result when discounted to present day values. If you are contemplating the use of a justification method, this theory deserves your analysis and review.

The MAPI Replacement Formula

The Machinery and Allied Products Institute, in 1943, under-took a research project on this problem, which finally culminated, in 1949, with the publication of a book entitled "Dynamic Equipment Policy." This was followed, in 1950, by the publication of the "MAPI Replacement Manual," a shorter explanation of the book. Those of you who are really interested in this subject should read these two books. You will be fascinated by them if you are presently baffled by the conflicting articles which have appeared in recent publications. The "1954 Production Planbook" of the "American Machinist," referred to previously, indicates how some companies are using this method.

The MAPI formula is a method of justification designed primarily to provide a means of determining when a replacement of capital equipment should be made. On first thought, this might seem to limit its usage. However, when we think about this a little more, we realize that this is usually the only problem involved. All equipment wears out, becomes out-moded, or for other reasons has to be replaced, or displaced, at some time in the future. The real problem is not whether it should be replaced, but when it should be replaced.

The basic purpose of the formula is to provide an equitable method of evaluating the operating disadvantage of retaining the old equipment (principally its operating inferiority), as compared with the operating disadvantage of purchasing the new equipment (principally the acquisition cost and its recovery).

The operating disadvantage of retaining the old equipment is computed by a thorough analysis of all income and expense differences which could be expected to occur through operation of the new equipment, or method, as compared with the old. This involves a realistic evaluation of advantages or disadvantages which may be expected with regard to better or more production, direct labor, indirect labor, effect on previous and subsequent operations, rework costs, down time, power consumption, tooling costs, property taxes and insurance, maintenance and repairs, space charges, sub-contract costs, and all other operating factors. An adjustment is also made for any capital cost of retaining the old equipment - usually, however, limited to the loss of salvage value, if any, incurred by keeping the old equipment another year. Although this sounds complicated, it should be done under any justification method. Under the MAPI formula it is sufficient to do this on a next-year basis only - next year being the twelve month period following installation.

The operating disadvantage of purchasing the new

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WHAT CAN A BUDGET PROGRAM ACCOMPLISH?

By: A. G. Avant – Chief Accountant, Illinois Tool Works, Chicago

and: Alasen H. Franking – Controller, Benjamin Electric Co., Chicago

To know that you're getting all you should out of your budget program, you need to know just what a good budget program can accomplish for you. Here's a direct review of just what a budget program can be made to do. This article reprinted with permission of American Business magazine, a Dartnell Publication.

All progressive companies look to the future. Knowing that tomorrow's plans are today's tasks, management emphasis is placed upon attention to the future rather than preoccupation with the past.

Most modern managers would agree that the possibilities of success of any undertaking are increased by following well-developed plans. Yet, many of these same individuals would oppose a budget program as they understand it. And well they might! For many years, budgeting was synonymous with simple forecasting and attempts to predict coming events and business conditions.

Early in the twentieth century, impatient demands of enterprising companies, flushed with the first successes of the era of "scientific management," prodded businessmen awake. Armed with new and surprising tools of "production standards" and vastly improved cost-accounting techniques, budget men of the nineteenth century found themselves planning profitable operations or how to minimize unfavorable predictions.

The pressures of the booming 1920's and the vagaries of the 1930's proved the value of such operations planning. When alert executives began to measure actual results with the budgeted projections, questioning and correcting the differences revealed, budgeting proved its value as an important tool of profit management.

WHAT'S IN A GOOD PROGRAM?

There are two fundamentals basic to all successful programs: Planning and control. No longer a simple projection of expected operations, budgeting has become a blueprint of the operations required to meet definite, planned profit goals, with the necessary controls to enforce conformance to the plan. Good budget procedures must include planning and control. The two functions complement each other, and both are required for a complete program.

An appreciation of the benefits to be derived from a well-conceived and completely coordinated budget program will do much to dispel such ghosts of the past as "efficiency experts" and "crystal-ball gazers."

WHERE ARE THE BUDGET EXPERTS?

Fortunately, today, those interested in the advantages which a good budget program can bring have ample resources. Budgeting, as a part of management, has gained such recognition in recent years that many financial organizations devote all or part of their time to the subject. The American Management Association and the National Association of Cost Accountants are among the professional societies which have contributed thought and effort to the subject in their discussion meetings and in their writings.

Recently, the National Society for Business Budgeting has become the focal point for budget directors and other executives who head that function of their business. Devoted entirely to the improvement, standardization, and dissemination of budgeting techniques, NSBB, with Chapters in 18 cities, is a clearing-house for budgeting ideas and their applications.

Local chapters in most major cities hold monthly meetings for talks and panel discussions on every aspect of budgeting. Individuals and companies with budgeting problems find the full resources and wide experiences of this nationwide organization at their disposal.

Most schools of commerce with business administration courses include introductory classes in budget principles and practices. Many of these schools are planning more advanced courses as material becomes available.

WHY DO COMPANIES HESITATE?

In many instances, when asked, companies recite chapter and paragraph of a budget installation which has gone sour. Some of these companies feel that their particular problems are too complex or too unpredictable to incorporate in a formal budget. Others feel that they are too small or too stable to need a budget. Still others question the added cost, as they think of the large staffs required by big corporations. Finally, there are those who remember the efficiency expert and fear that a budget is nothing more than a club to "browbeat the help."

As with the age-old problem of the preacher, those who need the sermon aren't there to hear it. The sad fact is, the companies who let these objections stand in the way of a sound budget program are the ones which would derive the greatest benefits from one.

The more complex and unpredictable the business enterprise, the more imperative the need for a formal budget preceded by careful and considered planning. Such planning should be based upon a foreknowledge of how the enterprise will behave under every condition, stemming from how it has behaved and is behaving under past and present conditions.

The need of the small company is not less; but the procedures will be more simple. The stable company should have a formal budget, to avoid being caught unaware when the shift does come – as it always has, in some measure, to every firm.

The cost-conscious company should remember what Henry Ford said: "If you need a new machine and don't get it, you pay for it without getting it." The cost of a budget installation, sensibly made and geared to the company's operations, is repaid many times in improved management and increased profits.

EVERYBODY'S DOING IT NOW

Of course, all these companies are budgeting more or less informally. No modern enterprise can successfully hold its place in today's competitive economy without an accurate judgment of trends and conditions. These companies are striving to anticipate, with varying degrees of success, future courses of action. The point is, without the formal and coordinated planning which a budget requires, no firm can reap the full benefits of its executive thinking.

The finest thoughts and plans lose much of their force when scattered unrecognized and unrelated among busy executives of the company, each occupied with his own problems. With an experienced budget man to pull the whole program together, the company plan is crystallized

for all to see and work toward. Each succeeding budget will be more quickly done, the results more accurately foretold, thus making company goals and objectives more completely understood.

After reviewing the benefits you should be getting from your budget program, you may feel that a revision of your present budget procedures, or the installation of a complete program, is desirable. You can decide to "do it yourself," or you can employ the services of one of the many fine consulting firms which specialize in installing and training personnel to operate a budget program.

Weigh carefully the advantages of the particular know-how of your own executives against those of the broader, though less particular, experience of an outside consultant. Consideration should be given to the added authority which management consultants can bring to the job, but also to the advantages which a "member of the family" will have in his contacts along the line.

If you have a person with a wide background of business experience, perception of character, tact, boundless patience, and determination, by all means go ahead! These are the attributes of today's industrial budget executive.

The techniques and mechanics of modern budgeting are readily available through the sources mentioned, and the principles remain the same from the simplest to the most complex system. However, the major task, the really big job, is one of learning to harness the diverse opinions of the many people involved.

A great complex of personalities must be brought together in common understanding – from top management, with its eyes on the stars, down to the line management, facing a single day's activities. Most organizations today recognize that this is a job requiring major executive ability and performance.

CAUTION SIGNALS TO WATCH

Whichever you find most advantageous to do, a few words of caution may be helpful. While it is true that all good budget procedures have common basic components, like all scientific management tools, a budget must be tailored to fit your business and your conditions alone. It is not the end, but a modern means to the end, of improving management efficiency and company profits. A budget program can be considered successful when it points the way to corrective action. Management must take it from there. The indispensable ingredient is management support. Without enthusiastic and active backing from top management, your program will wither on the vine. Indecision and inaction will nullify the best of budget plans.

To get started, keep it simple! Develop a plan of action with built-in controls. Every step in the plan requires a well-defined policy for controlling the performance of that step.

Taken in its simplest form, the budget is an individual plan of action. The housewife shopping in the supermarket is budgeting. The man of the house planning a motor trip is budgeting. Of course, as individuals, their decisions are easily made and the success or failure of their plans conveniently dismissed. However, in a business enterprise, the budget must extend to the common goal of what is profitable for the company.

Here, the immediate benefit becomes apparent. By enforcing a common goal, the budget requires cooperation and coordination. This means seeing departmental and division plans in the larger framework of the company's entire operations.

While the budget is usually installed in stages, you will soon find the greatest benefits are realized from a program covering all functions of the company. The sales forecast requires a full understanding of production and inventory problems. Manufacturing must understand sales and administrative objectives. More than one company has been astounded to discover how far apart the members of a management team were in their concept of the business objectives.

Instead of plans for the shop being based upon immediate problems only, the works manager or manufacturing executive will keep in mind the sales and inventory objectives of the company. The sales manager can plan his sales campaign, knowing the manufacturing facilities and advertising possibilities. The treasurer will know what financial demands will be made upon him by the proposed operations. The subordinates in each division of the company will have their part in building up the figures of the master plan. Thus, the central plan of action will be reflected in each department detail, in every production and inventory schedule.

CAN WE SEE THE FUTURE?

One of the first problems faced will be the belief of most executives that they "can't possibly see around the corner." Patient instruction at this point by the budget director will help them plot the future, in small segments first, and guide them in anticipating various possibilities.

At this stage in the development of the budget, management realizes its second real benefit. With the increased ability to plan ahead and with alternate courses wisely chosen, management finds itself meeting challenging problems with new ease and sophistication. Moreover, this exercise will build executives and managers of the men detailed to the task of preparing the figures. Many companies indoctrinate new managers and department heads in just this way, by having them make up their budget. No finer way of teaching management responsibilities exists.

Once the program is under way with careful planning and cooperative thinking, we must make sure that our reporting of actual figures is fast and accurate; accurate as possible, but above all fast. Here is the resurrection of accounting figures, from preoccupied attention to penny details and dead history to a lively awareness of the value of reasonably accurate figures promptly produced.

Everyone is familar with examples where company reports, reflecting millions of dollars and upon which basic and profound decisions will be made, being held up by a $1,000 phone bill, or other relatively minor detail. Accounting accuracy has its place, and an important one; but the most important use of accounting figures should be current reporting.

Only by a rapid reporting method can you pinpoint the problem areas requiring corrective action and maintain the enthusiasm generated in the original planning. It is odd that so logical a step as comparing actual results with the plan was not developed sooner. This was undoubtedly due to the lack of detail in budgeting caused by the scarcity of the statistics now available to every concern.

Today, no budget plan is complete without provision for quick and accurate accounting reports in the same arrangements developed for the budget program.

In this regard, the month is not a sacrosanct period. You may discover the functional cycle of many reports to be something other than monthly. Many items require

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DECENTRALIZATION OF THE COMPTROLLER'S FUNCTION

By: Arthur S. Hudson
Assistant Comptroller, Chrysler Corporation

Taking the big step from centralized control into decentralization is doubly big for an organization as large as Chrysler. The increasing importance of the accounting and budgeting function is brought out clearly in this enlightening article on the actual experiences of Chrysler in making the decentralization move.

My interpretation of the subject "Decentralization of the Comptroller's Function", will be confined to our own experience at Chrysler. I am using our experiences as a case history to emphasize the greatly increased role of the industrial accountant and the greatly increased demands that have been made recently upon accounting skills and techniques.

This is likewise true in business budgeting, whether your activity may come under industrial engineering, production, or accounting, or even as a separate department. Certainly in accounting, the green eyeshade and tall stool concept has long since vanished. We must do many more things today beside maintaining accurate books of account. We must examine, analyze and interpret operating results. We must exercise current controls over present activities and we must point out to management the full financial aspects and implications of planned or contemplated future action. "Business budgeting" is certainly a descriptive phrase that covers all of these activities. Finance, in its broad sense, is an equal partner today, with engineering, manufacturing and sales in the successful operation of any business large or small.

Going back to Chrysler, we are really still in midstream with a transition from a highly centralized form of accounting and financial controls and budgeting to a system of decentralization, with only certain basic controls or "strings" held by the Home Office. I can't give you solutions to many of our problems because we are still faced with them and are wrestling them ourselves.

ACCOUNTING PROCEDURES DON'T DICTATE POLICY

Certainly, the policies and affairs of the company aren't controlled by the company's accounting procedure. Really it is quite the reverse in my opinion. An accountant must have the agility and the enterprise to maintain correct and adequate books and records, and to do the reporting job for whatever operating circumstances he encounters. And so at Chyrsler, we in the Comptroller's department didn't just decide out of the clear blue sky, so to speak, to make sweeping changes in our accounting system. Rather, a corporate policy decision was made almost three years ago to undertake a broad program of management decentralization, which as we progressed with the program we called "Divisionalization". Back of this management decision lay the belief that with our present size and diversity a divisionalized structure of semi-autonomous profit centers would provide Management with a better framework for development of growth in the years we saw ahead.

There is nothing new about divisionalization. Many of the large companies in the country operate under such a form of management. It is, however, a tremendous job to change from a centralized form of management to a divisionalized structure. This decision of our management and the program we undertook, required a complete review of our entire system of accounting and financial reporting so that we in the accounting department would keep abreast of the organization change and make sure we would provide management with the best tools we could to accomplish management's objectives.

To show how this decision came about, probably I could go back a little bit and give you some of the history of Chysler, to show you how it developed and how we came to this decision, of necessity, of making a change.

BRIEF HISTORY OF CHRYSLER CORPORATION

Chrysler was organized in 1925, and at that time its manufacturing facilities consisted of just four plants in Detroit. They were formerly the properties of the old Chalmers and Maxwell automobile companies. In 1928 Chrysler greatly expanded its facilities by the purchase of Dodge Brothers, and in that same year introduced the Plymouth and DeSoto cars. Shortly after that we became one of the top three companies in automobile sales. Now we produce and sell five cars, the Plymouth, Dodge, DeSoto, Chrysler and Imperial, and Dodge Trucks. Other products are Airtemp air conditioning and hearing equipment, marine and industrial engines, oilite bearings and powdered metal parts, cycloweld adhesives and defense items, ranging from tanks to guided missile parts.

Today we have more than 50 plants in nine states employing over 170,000 people throughout the country. Our invested capital in 1925 was only 45 million dollars. As of last September 30 it was 637 million, or an increase of more than half a billion. And during this time we have paid almost 3 quarters of a billion dollars in dividends. So we have grown in common with many other companies in the country.

To deal with this growth we undertook this program of divisionalization. And through it we are working out a more complete delegation of operating responsibilities to the executive staffs of our divisions. But at the same time, the formulation of policies, plans, and control techniques affecting the Corporation as a whole, continue to be the function of our central staff.

In this new management philosophy, items of importance are principles of divisional financial responsibility and competition among divisions. Each division is designated now as a profit center with the capital invested in its operations so identified. The buying and selling of parts and assemblies between divisions is carried out at competitive prices. We measure the profit of each segment of each division by applying the test of return on invested capital. The changes we have made to our entire internal system of accounting and financial reporting represent the efforts we have made in accounting to adjust to these expanded management requirements. Under centralization and our previously centralized accounting system, we operated, and we still operate, on a standard cost system. The manufacturing plant then and now keeps its records on what could be called a standard inventory basis. Prior to divisionalization, the costs of all products shipped were transferred, intercompany, on a basis of relief at standard cost, and monthly, through account transfers to general office ledgers, inventory was relieved of such standard cost of sales, and for all non-standard costs, such as material and labor variances, and unapplied burden.

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Previously, our sales records were accumulated centrally. Administration, engineering, advertising and selling expenses were all controlled centrally and were not billed to the plants. A consolidated earning statement was prepared centrally by the chief accountant using the sales records, the transfers of standard and non-standard costs from the plants, and applying the non-manufacturing expenses.

In all of our plants under centralized accounting, the accounting functions of timekeeping, payroll, billing property, cost and bookkeeping were under an executive known as a factory auditor, who reported directly to a general factory auditor in Detroit and conformed to standard procedures issued by the general factory auditor. A plant management's performance under centralized accounting was measured simply in terms of labor efficiency, that is percentage of standard labor to actual direct labor, measured by the cost of scrap generated, and by the amount of unapplied burden. The plant manager or plant management did not determine any intercompany selling prices and was in no position to evaluate its performance on a competitive profit and loss basis.

Central accumulation of costs, and the development of corporate end-product profit, together with the analyses that were made at the central office, suited well and adequately the requirements of a highly centralized management. But certainly, as you can see, it would be inadequate as an aid and tool for management if such management were placed on a plant or division level, and if we endeavored to measure the performance of this management by comparing actual profit to planned or forecasted profit. And one of our basic objectives in this management decentralization program was to promote just such measurements of operating efficiency.

DECENTRALIZATION PROGRAM STARTED

So with management's decision to decentralize and delegate responsibility, the accounting departments arranged to fan out to each division, their segments of the reporting that we heretofore prepared centrally. Further, with a division manager carrying the responsibility for profitable operations, such manager must have suitable authority. From an organization standpoint, therefore, the man in charge of accounting at a division would have to report directly on a line basis, to the division manager. And any relationship between division accounting and central office accounting would have to be that of a staff or functional responsibility basis.

As we planned these changes, we decided that three areas of control would have to be retained centrally in accounting by the corporate comptroller.

The first is the right to determine policy and general procedures. The second is the right of internal audit to be performed by a centralized internal audit department. The third is the right of prior consultation, and of veto, in connection with key appointments made within divisional accounting departments.

As to the first of these central controls, I think we all recognize that in a corporation the general management has a responsibility to the directors and shareholders which cannot be delegated. General management needs, on a broad scale, the same type of accounting and financial reports and analyses relative to operations of the business as a whole, as we propose to develop on a decentralized basis for divisional management. And further, in the measuring of each division's performance by general management, we had to assure ourselves that all divisions would play in the same ball park and adhere to the same playing rules.

The second control is that of internal audit. We believe that in this regard it is essential to establish methods by which frequent and periodic checks could be made to assure general management that corporate policies and procedures were being properly observed by the divisions.

The third control is that of approval or selection of supervisory personnel. Because we operated under a centralized accounting system for so long, we believed that we in the central office were best qualified to judge the abilities of the man who would be responsible for decentralized accounting. We also knew that the greatly expanded division accounting would require additional personnel and major shifting of assignments, and we wished to coordinate these changes centrally. Further we wished to - - - and we do - - - preserve company-wide opportunity for advancement in accounting, and we do not restrict a man in his ambitions, to one single division.

CENTRAL RECORDS DEPARTMENT ESTABLISHED

To make these changes, we first organized centrally a new department, which we call the Divisional Records Development Department and its assignment was to study all of the central office functions and responsibilities so we could decide which functions and responsibilities would be retained centrally and which would be transferred to the division level; and also to develop recommendations for accounting changes both centrally and at the division level. Out of the early results of these studies, we determined our personnel requirements; and we also used this department very extensively for what we called a manpower "pool", a temporary training place for men from plant accounting departments, and for many men we employed from the outside, all having the experience in the areas of responsibility we proposed to delegate to the division level.

In the last 2½ years that this program of providing divisional managements with responsibility for profit results was undertaken and continued, we have comptrollers, one for each of the 13 operating divisions which have been established. We recently also appointed a comptroller for our engineering division. Each one of these divisional comptrollers prepares complete monthly operating statements. and they include all elements of sales and costs attributable to his own division. Each comptroller prepares approved long and short range forecasts of operations which are compared divisionally, and at the general office, with actual results. Each comptroller's staff is further responsible for price analysis work in connection with the establishment of public selling prices, and in the negotiation of interdivision selling prices.

As we find our division managers growing more and more aware of their profit responsibilities, our comptrollers have greatly expanded the areas of budgetary controls. I could elaborate greatly on this, because in all areas of our operations, the use of budgets has been increased, and our techniques improved upon and refined.

Centrally we have issued a Comptroller's Policy Manual and a Comptroller's Procedure Manual, developing these on a step by step basis as we completed our studies and recommendations, coordinating these with other departments where they are affected, and giving generally all of our divisional comptrollers the right to participate in their own assigned special fields in the preparation of these. We hold regularly scheduled meetings of our divisional comptrollers to discuss these policies and procedures before we issue them centrally,

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EFFECTIVE DAILY CONTROLS FOR MANUFACTURING COSTS IN JOB-ORDER INDUSTRIES

By: Chas. P. Reynolds
Controller, Trailmobile Inc., Cincinnati, Ohio

Although dealing with the same three basic categories of cost -- material, labor and burden -- problems in job order type industries vary from those who produce for stock. This article based on a functional discussion meeting at the 1956 NSBB National Conference in Cleveland.

A discussion of job order costs reminds me of a cartoon I saw recently in which a contractor was answering the question of the would-be owner, "How are things going"? The contractor's answer would seem to be typical "Well, we're making average progress, we're slightly behind on the time schedule and running a little ahead on our cost estimate".

As in any other manufacturing industry, we are concerned with the three broad categories of cost in a job order shop - material, labor, and burden. The daily control of these costs, however, must be confined to the variable items, those which show up in the purchase journal and the payroll register. Other costs normally defined as fixed are controlled by management decision over a period much longer than that under discussion.

MATERIAL COSTS

There are various means to handle the daily control of material costs. Estimates are normally prepared for each quotation with material costs included based on previous experience or through specific design information coupled with a bill of material. If the bill of material is not prepared until after the order is received, a comparison with the estimate would be a helpful control factor to make sure that the specifications for production are similar to those used in quotation.

At the time the job is released to purchasing, material standards should have been computed on each of the items required, and a subsequent analysis of variance from such standards should be made to determine whether the higher costs were due to price, usage, or substitution.

It is just as necessary in a job order shop to maintain control of obsolescence, wastage, and deterioration, even though the material costs might not find their way against any specific job. Scrap control is important to recover the maximum from both offal and spoilage. Procedures for sorting material or accumulating it by type will result in higher scrap prices than for miscellaneous lots.

A third general category of daily material control would involve the planning of material requirements carefully to avoid the costs of shortages and the premiums that must be paid in cases where warehouse steel is obtained through lack of mill committments.

Frequently, the control of material takes a back seat to the other two categories of cost, but in many industries material is by far the highest proportion of total costs, and deserves serious consideration on a daily control basis. If Purchasing, Planning, and Shop Supervision, all contribute to the efficient purchase and use of material a bigger hole will be plugged than through increasing labor efficiency or paring down overhead costs.

LABOR COSTS

Despite the fact that labor is frequently a smaller component of total costs than either material or burden, it is perhaps more susceptible to daily control than the other two broad categories. Articles and even books have been written on the subject of reducing labor costs. The control of such costs in a job order shop would certainly involve the use of a labor budget. The number of men on the payroll and the amount of time they are to apply to productive labor must certainly keep pace with the plant backlog and the production level. Profits cannot be increased if you have too many men on the payroll to be used efficiently no matter how busy you keep them sweeping and cleaning. The production level of a job order shop may be determined by totaling the labor included in the various job estimates coupled with the delivery commitments that have been made to customers.

The most orthodox control method used on labor is that of labor standards. In a job order shop labor standards are normally shown on routing sheets which not only indicate the sequence of operations, but also the labor allowance in terms of hours or minutes for each such operation. The routing sheet will normally include the setup time allowed for the first run of any repetitive operation. In job order shops it is common to see setup time handled as standard labor, although this is still far from a common practice.

Efficiency reports should be issued daily showing the breakdown by shift and by department to pinpoint the areas requiring corrective action. A comparison should also be made in relation to the operating plan for the month to see whether labor efficiency is measuring up to objectives. Labor efficiency is normally expressed as the percentage of standard labor to actual labor.

The variance between standard and actual labor or between actual labor and labor estimated prior to taking the job, should be explained by shift, by department, by job, and, if necessary, down to operation. Explanations for labor variance may include such reasons as supervision lacking, improper equipment, untrained or substitute assignment, method, scheduling, etc. Obviously, it is important that steps be taken to eliminate variance as soon as the cause becomes known.

A final opportunity for controlling labor costs in a job order shop comes with the accumulation of labor charges by job number. A cost department that is on its toes can identify improper labor charges to a job order, and trace the work back to the department performing to determine the cause for excess charges.

BURDEN OR OVERHEAD

Again the basic control on total overhead of the shop is the comparison of standard overhead with actual expenses. The standard overhead, or that which is charged to inventory, is normally stated in terms of a percentage of standard labor, such as 200% of standard labor. Normally, standard burden is set up for a year at a time, and is based on a projection of overhead costs at normal productive capacity of the shop.

In a discussion of daily control of overhead costs we necessarily exclude the fixed and semifixed items which can only be controlled over a longer period. Such items would be supervision and clerical salaries, rent, insurance, and taxes, and depreciation.

The largest item of overhead is frequently indirect

labor. This category would include inspectors, crane operators, maintenance men, material handlers, shipping, firemen, tool crib labor, etc. Each of these indirect labor categories should be carefully planned on the basis of the scheduled production, and authorization for personnel in excess of budget should require plant management approval.

The most variable component of indirect labor is the time of direct men working on expense assignment. Examples of producers on expense would be idle time or any of the breakdowns of idle time which furnish a reason for the failure to be productively assigned. Many shops still account for the time of producers on expense according to what the men are doing when they are not producing. For example, a welder who runs out of work is assigned to painting in his department, and is therefore charged to maintenance. A somewhat more enlightened method of accounting is to charge the men according to the reason they are not producing. For example, their time might be charged to "wait for stock, wait for inspection, wait for tools, wait for handling".

In a job order shop it is frequently possible to account for such idle time more accurately than in a process industry. Men normally have their time charged on time tickets which may vary in design and color to indicate the nature of the down time.

All such indirect labor both regularly assigned and incidental to production should be carefully analyzed, related to budget, and reported promptly to plant management for action as variances occur.

Another major item in the overhead category is that of indirect material. Indirect material is defined as all materials which do not form part of the finished product, for example oil and grease, rags, gases, flux, etc. All such supplies should be carefully budgeted, and daily usage either through purchases or requisitions should be reported to keep a running record of expense versus budget allowance. It is obvious that the use of indirect material may be expected to vary proportionately to the production level and, consequently, the budget should be carefully prepared in relation to plant activity. The information included in the daily report may be obtained from payables vouched, and charged to the various departments in the plant, or through requisitions from stock obtained in general store rooms and tool cribs.

SUMMARY

Perhaps the most common cost problem encountered in a job order shop is the discrepancy between estimated costs prepared by the Sales Department and the standard or actual costs used in the shop. A control system is incomplete if it does not provide for a comparison of estimated costs (broken down between material, labor and burden), the comparable standard costs, and the actual costs incurred. In a well organized plant there should be constant interchange of information between the Estimating Department and the Routing or Standards Department, and estimating data should constantly be revised to reflect changes in standards.

The application of standards in the analysis of variance is every bit as important in a job order shop as it is in a production line type of manufacture. Frequent analysis of variances by operations keep the foremen and the workers on their toes, and, of course, spotlights improper methods and incorrect standards. Credit variances should be explored just as conscientiously as the "red" variances. Effective daily control of all costs is essential to avoid locking the door after the horse is stolen.

MANAGEMENT OF INVENTORY INVESTMENT IN MANUFACTURING INDUSTRIES

By: J. L. Bush
Assistant Secretary-Treasurer, LeTourneau-Westinghouse Company, Peoria, Illinois.

Increasing demands upon working capital are causing increasing attention to various methods for maintaining the "proper" inventory. A scientific approach to a vital subject, as developed at a functional discussion meeting at the 1956 NSBB National Conference in Cleveland.

The search for improved methods regarding the determination of proper inventory investment has long provided a real challenge to industrial management. Recently increased demands upon working capital, occassioned by extensive increases in production facilities have required ever closer analysis and scrutiny of investment required for inventories. Currently then the objective of determining and maintaining the proper inventory investment is perhaps receiving more emphasis than ever before.

An objective might be quite simply stated, such as "our company should not have too much inventory and then, of course, it shouldn't have too little". But really, what is "too little" or what is "too much", or what is "a realistic amount after consideration of all factors"?

You may choose to include some of these seemingly nebulous factors in your definition of proper inventory investment. For instance, you may want to prescribe something like "inventories should be maintained at the lowest possible investment consistent with a continuous flow of production and in accordance with proper practices regarding quantity buying".

It then becomes necessary to determine the amount of inventories from which your management should expect a "continuous flow of production". It is also necessary to determine "proper quantity buying practices". These are, of course, big orders, for instance the last can be determined only after consideration of many items such as; the risk of obsolescence, the cost of money, probable future price trends, the cost of storing materials, etc.

While many parts of the inventory problem vary with individual companies, it does appear that certainly each company requires a "yard stick" or some sort of measuring device for determining the reasonableness of of inventories. In addition to this standard, each company requires a method of forecasting the inventory requirements of future periods.

Consideration will, therefore, be given first to " method or techniques for determining standards or goals for inventory investment" and secondly to "methods of forecasting inventory requirements".

Standards for Inventory Investment;

Preliminary Approach:

As a preliminary tool in the management of inventories, inventory limits may be based upon the number of inventory turns per year. That is, a limit for maximum inventory may be based upon the fewest number of turns believed to be acceptable in the company. The desired number of turns per year should also be determined and this objective used in stating the minimum inventory investment.

It is believed essential to establish not only a ceiling on inventory but also a floor for inventory investment. You will recall that our simply stated objective indicated

"our company should not have too much inventory and yet it should not have too little".

In order to establish these preliminary limits on inventory investment it is necessary to first determine the minimum and maximum turns per year and secondly, to convert these turns into dollar amounts. The establishment of minimum and maximum turns per year can be based upon a combination of performance of others within the industry and past performance of a particular company.

Perhaps just a word of caution should be mentioned in connection with looking at the inventory experience of other companies. For instance, the operation of the competitor company must be similar as to the degree of integration in production.

In establishing inventory turns in relation to a particular company's past history, effect should be given to any abnormal factors which may have influenced the inventory during prior periods.

Let us assume now that we have gone through this research and have determined that our hypothetical company should turn inventory at least three times each year and that a desirable goal would be to turn inventory four times each year. We are now in a position to state the minimum and maximum dollar limits for inventory. This computation is quite simple and involves merely the division of annual cost of sales by three, to determine maximum inventory, and by four to determine minimum inventory.

Segregate Investment into Inventory Classifications

In order to have a more usable yardstick it becomes desirable to establish individual limits for the various classifications of inventory. That is, the total inventory investment should be divided into investment between raw, process, and finished inventories.

Since service must be provided for the customer and since this cause in reality is the only reason for maintaining a finished inventory, ideas regarding quantities believed to be adequate to provide for such service should be obtained from sales personnel. While the actual amount of finished inventory will be expected to fluctuate according to seasonal trends, it will usually be possible to conclude that finished inventory should average the cost of a certain number of days or weeks sales. For purposes of this preliminary approach, the total of raw and process inventories might be said to represent total minimum inventory and total maximum inventory reduced by the planned finished goods inventory.

Computed Investment

Essentially, the above described "inventory turns" computation discloses whether or not total inventory investment is within limits and in a general way whether the total of raw and process inventories and of finished goods inventories appears to be within balance. Perhaps that general comparison will be sufficient in many instances, however the condition of various elements of inventory has not yet been exactly determined. Or to illustrate that further analysis is required, suppose this initial computation indicated that inventory was not within limits. Then obviously a need exists for further analysis that will more nearly pinpoint variances.

Prerequisites

This further analysis is predicated upon certain essentials or fundamentals generally found in production or inventory planning. The three requirements are:

1. A production schedule which specifies quantities of individual models as to assembly date. (Quantities may represent individual units or total quantities on a particular production order.)
2. An established lead factor (or cushion) for delivery of material ahead of the assembly date specified in the production schedule. (It is probable that all materials can be classified under no more than six different lead periods. For instance, all materials might fall under the rather broad heading of steel, forgings and castings, engine parts, tires, and other purchased parts. In any event, lead periods permitted in the receipt of material prior to assembly date must be specified for all purchases.)
3. The third prerequisite is a dollar breakdown for each model or item produced, classifying the material cost of the model according to lead factors, described in Item 2. Stated in other words, the cost or bill of material for each model produced must be classified according to lead factor.

Production and inventory planning for all companies producing goods other than shelf items and producing goods requiring relatively long periods for conversion to finished products, probably embody the foregoing basic requirements. It is probable that a variety of terms are used in describing these elements of planning but some place within the procedure essentials quite similar to the foregoing could undoubtedly be found in most companies producing a product of average complexity.

Before going into the method of computing inventory investment in relation to the foregoing three essentials, it would be well to have in mind certain basic philosophies. For instance, the writer believes that basically real control lies in the proper analysis of goods coming into the plants. Or in other words, it is believed that if the correct amount is not put into the front end of the pipeline, then inventory could never be at the correct level any place along the line. Let us first then compute the inventory investment which should be on hand for each type of raw material and compare these results to actual.

A computation based upon the foregoing three essentials can be stated quite simply as follows:

> Extend the dollar content of each type of material which should, according to the accepted lead factor, have been received at the date of the computation, by the quantities shown in the production schedule.

The entire production schedule can be analyzed and quantities so determined then extended by the dollar amount for that type of material. This extension results in the dollar balance of inventory which should be on hand at the date of the computation, if everything is according to plan.

Evaluation of Results

In order to properly evaluate the results of this computation, we could ask ourselves "what do the figures represent"? In the first place, the mathematical result represents the "theoretically correct" amount of inventory investment. This theoretical amount must, of course, be interpreted in a practical manner. For instance, no company buys in exactly the required amount for a given production order on all types of material. Obviously, we must take advantage of quantity savings. The theoretical investment amount should then be viewed in the light of company policy regarding such practices as quantity buying.

In order to understand fully what this amount represents, we should mention some of the principal limitations in the amount. This computation will determine a standard or theoretical inventory investment but only in relation to procedures established for a particular company. That

is, it will not, within itself, indicate whether such practices are proper. A review of our initial computation of minimum and maximum limits for total inventory investment will, however, indicate whether practices need improvement. Another basic limitation of the method is that since the computations are based upon the existing production level, it will not disclose whether the proper quantities were authorized for production in the first place. That is, it will not within itself indicate whether production levels were correctly planned.

The initial results should be adjusted for various factors. For instance, the initial amount will not disclose the extent to which shortages may have existed in the inventory. Consequently a comparison of the first result to actual book inventory might permit, or rather fail to disclose an offsetting "long" position elsewhere in the inventory. Adjustment for shortages can, of course, be made quite readily. It is recognized that continuous production is impossible if the existence of shortages is not quickly reported. Since shortages must be reported, then they can be stated in dollars and the theoretical amount can be adjusted to give effect to such items.

The first computation requires considerable effort. However, after results have been reviewed a few times, the subsequent computations are not particularly involved. As a matter of fact, the initial attempts at evaluating the effects of existing practices will probably result in more clearly defined policies regarding inventories.

Evaluation of Benefits

In evaluating the benefits of this computation, it should be remembered that it is used in connection with the over-all inventory limits established on the basis of inventory turns. This second, more detailed computation, was made to determine the status of inventory in relation to standards for each type of raw material. Several companies within the writer's knowledge have accomplished most satisfying results under these methods, because:

1. Amounts can be specifically stated, and they are based upon the very fundamentals of production planning. The variances are, therefore, more readily understood by production and other personnel.
2. The method can be made to definitely measure the extent to which prescribed ordering and buying practices are being followed.

The computation should be made regularly, either monthly or quarterly, because significant conclusions can be derived from the trend of variances between computed and actual book investment. These variances, like any variance from standard, are of value only if regularly analyzed and accorded proper follow-up.

For maximum benefits, it is almost essential that book inventory balances of raw material be maintained for each type of material having different lead factors, that is, for each type of material set out separately in the computation.

Forecasting Inventory Requirements

In addition to ascertaining that inventory is being maintained in the proper amounts, it is also necessary to project the inventory requirements of future periods. Such forecasts are essential primarily in connection with cash planning; but are also used in estimating the need for additional plant facilities and for various other purposes.

Numerous methods can be followed in forecasting inventory requirements and should be varied depending upon the purpose of the forecast. For instance, a long term forecast, such as that contained in a ten year plan, would not be based upon such detailed information as a short term forecast, perhaps covering the next twelve months.

Two methods for determining standards for inventory investment were described. The first method, which was based upon the number of inventory turns per year, might be used for long range forecasts. The more detailed method of computing delivery date of invididual categories of inventory might be followed in forecasting monthly requirements during a single year.

At the outset, it is assumed that a reliable sales forecast is available. Methods for forecasting sales will not be covered herein except to state that a properly prepared sales forecast is essential to an intelligent forecast of inventory requirements.

Inventory turns as a basis for projecting inventory requirements would consist of dividing the cost of sales shown in the sales forecast by the expected or desired number of inventory turns. This computation could be made by individual products and could be computed either for individual months or for average annual amounts, depending upon the purpose of the forecast. If monthly inventory balances are to be shown then effect should be given to seasonal trends during which production and sales levels would not coincide. If inventory additions are desired for purposes of cash forecasting then the inventory requirement should be computed in relation to the rate of production and seasonal sales trends would have no effect.

The more detailed computation of inventory requirements according to an authorized program provides an excellent means for fairly accurate estimation of inventory additions. Prerequisites of this method consisted of an authorized program and the dollar value of each type of material contained in items being manufactured. Monthly raw material inventory additions can readily be estimated by determining monthly qauntities of each type of material to be received and by then extending the quantities by the dollar value for each type of material.

The quantity of each material classification was derived from the production schedule and the date when material should be received was determined from the lead period for each material classification.

Labor and overhead additions can be readily estimated at standard cost according to the start and completion date of quantities shown in the production schedule. For simplicity in the computation it may be desirable to assume that all units in process were one-half completed.

The estimate of inventory additions will provide information as to monthly cash expenditure required for material, labor and overhead. Frequently an estimate of inventory balance is also required. If this is the case it would be necessary to estimate reductions from inventory. Reductions can be quickly determined by costing sales shown in the sales forecast.

Computations necessary to establishing inventory investment goals as well as those related to forecasting inventory requirements of future periods can be made either by worksheet methods or through the use of I.B.M. equipment.

THE IMPORTANCE OF BUDGETING IN BANKER–CPA COOPERATION

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This is an article written BY a CPA and originally directed TO CPA's and Bankers--but because it highlights the overpowering importance of Budgeting, it provides an opportunity to see, through others' eyes, another of the myriad reasons why Budgeting remains "the basic tool of scientific management".

For a number of years both bankers and certified public accountants have been actively promoting cooperation and working relationships between the two groups. It is certainly true that the two professions have much in common. To coin a phrase that has a familiar ring: "What is good for the bankers is good for the certified public accountants and vice versa." Both professions get their livelihood from the community. The economic success of each group is directly proportional to the economic health of the community. Conversely, the economic health of the community can be appreciably affected by the activities of these two professions. Members of both professions must be able to effectively appraise financial situations. Helping the businessmen in the community to become better managers and keeping them solvent promotes community spirit, financial health, and thereby promotes free enterprise.

Since the end of World War II the Robert Morris Associates and the American Institute of Accountants have been actively engaged in a cooperative educational program directed toward certified public accountants, bankers, and businessmen. They each have active operating committees working together on problems of mutual interest, and in addition, on methods of carrying on an effective educational program.

In addition to meetings at the local level, two significant tangible results of these joint efforts are:

Two Informative Booklets

1. A booklet prepared and published by Robert Morris Associates entitled "FINANCIAL STATEMENTS FOR BANK CREDIT PURPOSES". The booklet states: "the purpose of this pamphlet is to promote a better understanding by businessmen of the nature of the financial information that the banker needs for credit purposes and why he needs it. It emphasizes the value to both businessman and banker of a report by an independent certified public accountant in the presentation of such information. The pamphlet describes financial information useful to the businessman and generally required by the banker." Close to 100,000 copies of this booklet have been distributed. Every accountant should be familiar with it and have a copy for handy reference. Accountants will note that a copy is included in the appendix to the CPA Handbook. Incidentally, I heard one banker state recently that this book provides the accountant an excellent sales talk for a complete audit.

2. A booklet prepared and published by the American Institute of Accountants, 270 Madison Avenue, New York 16, entitled "AUDITS BY CERTIFIED PUBLIC ACCOUNTANTS, THEIR NATURE AND SIGNIFICANCE." The following quotation is indicative of the purpose: "Particular attention has been given to the need expressed by bankers and other credit grantors for a summary of the basic considerations usually involved in making audits of small and medium-sized manufacturing and mercantile companies." Unfortunately this booklet has not been given as wide distribution among bankers and other credit agencies as might be desirable. Incidentally, this is a project that local CPA chapters should consider.

It was interesting to note that a bank in Dallas recently took the initiative in promoting cooperation with the Certified Public Accountants by organizing a joint meeting. To me it is highly significant that the initiative for such a meeting came from the bankers rather than the accountants. Cooperation and mutual understanding can best be achieved as a result of active effort on the part of both groups rather than one. It appears that cooperative efforts by the national organizations of each group have been carried forward with team spirit, however, at the local level it appears to have been principally the accountants that have taken the initiative. In thinking about banker-accountant working relationships it appears that there are many potential benefits for both groups. It is certainly no one-way street, nor should the street be necessarily wider going one way than the other.

Typical Discussions at Joint Meetings

I have attended some 6 or 7 joint meetings of certified public accountants and bankers and have felt that each one of them was quite worthwhile. In preparing for this article I read some 20 to 25 speeches given by bankers and accountants before such groups. Discussions at these joint meetings usually center around one of two topics, viz:

(1) A BANKER discussing what information is needed for credit purposes that SHOULD be included in audited financial statements, and generally culminating in a critical appraisal of the deficiencies of such reports.

(2) A Certified Public Accountant discussing such items as generally accepted accounting principles, auditing standards, audit procedures, the accountant's opinion, short-form versus long-form audit reports, and generally culminating in a speculation of why bankers do not consistently require such statements.

I have been particularly interested in industrial accounting, budgeting, and the managerial application of accounting rather than the auditing and tax aspects. Nevertheless, in thinking about the subject of banker-accountant working relationships, a review of auditing and financial statement considerations seemed to clarify my own thinking and to place in perspective the ideas that I would like to present. These ideas should be of vital concern to the banker, impose a definite responsibility on the certified public accountant, and perhaps more significantly, will generally prove to be of vital importance to the businessman-client in that the QUALITY OF MANAGEMENT is apt to be improved.

The Quality of Management

Improving the quality of management certainly is not new to bankers or CPA's. In practically every community bankers are very active in programs such as soil conservation, farm management, live-stock improvement, etc.; all of which are directed toward making certain groups more efficient operators. There can be no doubt about it, some of the most successful businessmen in

every community become so partially as a result of constructive efforts on the part of the bankers and CPA's who sometimes indirectly force them to become better managers.

We can all agree that the day of the hunch banker is past. In these times of intense competition and extensive borrowing the banker must approach credit granting on a logical, even scientific basis. It seems to me that more than ever before he must appraise each loan request on the basis of the cold facts and sound projections available; consistent with certain basic credit principles that have been developed over the years by the profession, and upon definite loan policies that necessarily must be laid down by each individual bank management.

The Credit Transaction

In considering banker-accountant working relationships it seems appropriate, even necessary, to consider the sequence of events from loan application to final collection of the loan, since this is essentially one protracted business transaction. The banker is interested in processing the loan request in minimum time and with minimum cost, yet on a sound basis. Assuming the loan is made, he is then interested in ORDERLY COLLECTION. In this series of events the services of the CPA potentially can be very important. Although the type and size of loan determines the factors to be considered in loan situations, the basic considerations in processing most loan applications are:

1. Type of loan requested
2. Purpose of loan
3. Size of loan requested
4. Security available
5. Legal considerations
6. Economic considerations
7. Personal information concerning the borrower
8. Financial condition of the borrower
9. Plans and prospects for repayment

It is with respect to the last two items listed above that the banker may depend upon the CPA. Certainly historical financial statements (ie., audited reports) should be required in connection with many types of loans. It seems logical that every bank should have a DEFINITE MANAGEMENT POLICY concerning the four following items:

First, when audited financial statements are, or are not, required as a part of the loan processing procedure.

Here is an actual case that, to me, indicates the importance of a definite policy along these lines. A certain building contractor (and depositor) made a loan request, let us say, for $35,000. The bank granted this loan, although three weeks prior to the loan, an audit report prepared by a CPA showed the borrower to be insolvent for all practical purposes. The bank asked for a financial report, accepting one prepared by the borrower, not realizing that the certified financial statement had been prepared shortly before. The client upon receiving the audit report had actually hid it, not even letting his bookkeeper see it. Apparently the bank did not ask for an audited report, or if they did the client denied having one, and he no doubt claimed that the cost and time to get one would be prohibitive.

The loan was defaulted, consequently the bank became involved in the construction business against its wishes. The significant point is that when processing the loan request the bank could have known that there was an audit report, who prepared it, and the approximate date of it, without asking either the client or the CPA. How could they have known? Simply by keeping a record of requests received from CPA's during audit engagements for confirmation of bank balances and indebtedness.

Secondly, banks should establish a definite policy regarding minimum standards of acceptance of financial statements--for example, when financial statements are received:

1. Marked "Prepared Without Audit", or
2. With no opinion included, or
3. An opinion with disclaimers so material that they negate the opinion,

they should be returned to the client with the suggestion that his accountant complete them.

Third, banks could well have a definite policy encouraging banker-accountant-client conferences in processing certain types of loan requests. There are certainly credit situations where this should be practically mandatory.

Fourth, a strong policy of giving continuous attention to the problem of improvement in the interpretation of financial statements seems sound.

Analysis of financial statements involve much more than an evaluation of the listed assets and liabilities coupled with the mechanical computation of a set of highly superficial ratios. Proper interpretation of financial statements principally involve LOOKING BEHIND THE FIGURES, eliminating spurios amounts due to bookkeeping, seasonal effects, and non-recurring transactions, in order to evaluate (a) what happened by chance, and (b) what was due to efficient operations. It must be realized that the detailed "spread sheets", maintained by many credit departments, presenting an array of the historical financial statements of a borrower, principally show WHAT HAS BEEN DONE; however, they assume significance only insofar as they can be employed in an evaluation of security and of the potential earnings out of which the loan must be repaid.

Banks Employ CPA's

In some situations banks may request a certified public accountant, in whose business judgment they have considerable confidence, to make an independent survey in connection with a particular loan situation. This type of request is necessarily limited, since the bank cannot expend large sums for fees on a loan request that may not materialize in a loan, or if it does materialize, the 4 1/2 or 5% interest leaves little margin for such expenditures. Of course, such activities are possible if the investigative cost can be conveniently shifted to the client.

Plans and prospects for orderly repayment of a loan loom large in processing a loan request. A leading banker (E. F. Gee, VP, State-Planters Bank & Trust Co., Richmond, Va.) has said: "If in considering a loan, you ask yourself no other question, let it be that. 'How is he going to pay it back.'" The banker wants the loan repaid from NORMAL OPERATIONS; he does not desire to liquidate the business or take over the security. Again the CPA potentially can be of considerable assistance in that he logically can be expected to ably assist the client in developing a PLAN OF OPERATIONS (ie., a budget) which includes PROVISION FOR REPAYMENT OF THE LOAN.

The Causes of Business Failures

In this regard it is significant to note the causes of business failures, since this may give us an insight into

something constructive that might be done by bankers and CPA's in the credit situation which would tend to decrease the possibility of the most undesirable credit situation--BUSINESS FAILURE where the lender must take over the security. It has been reported by Dunn and Bradstreet that at least 90% of business failures are due to incompetence and mismanagement. Specifically, business failures are due to the following principal causes (in the order listed):

1. Inadequate planning of operations
2. Inadequate financial control of operations
3. Inadequate financing

The first cause assumes more significance in the larger more complex business situations. The mere recitation of these causes of business failures indicates matters of vital concern to bankers and CPA's.

The following quotation taken from a recent report (Monetary Policy and the Management of the Public Debt, Part 2, Joint Committee on the Economic Report, page 791, United States Government Printing Office, Washington, D. C., 1952.) is particularly pertinent to the situation being discussed:

> Lack of capital does not appear to have been a dominant cause of business failure. The most important factor in success or failure of a business appears to be the quality of the management. Once a business gets into difficulty, the difficulty will probably sooner or later show up in the capital account, and thus appear superficially to indicate lack of capital. Increased capital or credit may temporarily alleviate the distress, but the basic cause of the difficulty appears to lie in the quality of the management, its skill in picking business opportunities, in getting business, in operating a plant, shop, or store, and in controlling expenses.

At this point we might pose a question: In the credit situations, where the banker-accountant working relationship is involved, what constructive action might be taken to improve the quality of management and hence to minimize the possibilities of business failures? We are interested in activities that will prevent default on loans, activities that will lessen Loan Risks, rather than what might be done after default is an accomplished fact.

Bank Analysis Helps the Client

Constructive activities are certainly possible in loan situations. Experience definitely shows that the bankers' analysis of client's affairs is often most beneficial to the client. The same can be said of an audit by the CPA. The presentation of incontrovertible, and sometimes unpleasant, financial data to a businessman frequently brings forth serious thinking based on a realization of the real state of affairs. An audit report, or a discussion concerning a loan request, not infrequently brings a loose management down to earth before it is too late.

Now I would like to briefly discuss some of the specific constructive actions, that might well develop in credit situations, which will tend to improve the QUALITY OF MANAGEMENT, thereby decrease business failures, lessen loan risks, and tend to insure orderly repayment of business loans.

The Accounting System

First I would like to discuss the ACCOUNTING SYSTEM. It is a fact that inadequate accounting is a significant factor in business failures. When you find a weak accounting system you invariably will find inefficient management. Why are these facts true? There are many reasons. Accounting data constitutes an essential part of the foundation upon which MANAGEMENT PLANNING is built. CONTROL OF OPERATIONS must be based upon sound ORGANIZATION with AN ACCOUNTING SYSTEM TUNED TO IT. Technical efficiency in a firm is not enough; there must be effective FINANCIAL PLANNING AND FINANCIAL CONTROL. The businessman who does not have intimate knowledge of costs and sources of income soon finds himself hopelessly outclassed.

This thought brings up the subject of COST ACCOUNTING. Generally speaking, cost systems are inadequate in small and medium-sized firms. Most leading CPA firms will readily confirm this fact. I am sure all of you read the story of a MR. SMITH, of Dallas, in the Wall Street Journal recently. It seems Mr. Smith started a garment factory with $5,000 capital; among other activities he made 11,000 ladies blouses, only to find out from a belatedly employed CPA, that he lost some $3,000 on the 11,000 blouses. Significantly the by-line on the story was "FOUNDED IN '54, FLOUNDERED IN '55." His admitted errors were lack of adequate capital and no cost accounting system.

In loan situations the banker should be alert to the adequacy of the accounting system; likewise in an audit or tax engagement the CPA should be alert to the adequacy of the accounting system. Neither should hesitate to suggest to the client that the accounting system is inadequate, if this is apparent. To me these are real professional responsibilities. It seems to me that many loan situations would create an appropriate vehicle whereby the banker could make timely suggestions to the client concerning the need for systems of improvement. Such suggestions naturally lead to the CPA qualified to ably assist in COST SYSTEM INSTALLATION. Here we CPA's have a responsibility that is not being fully met. As auditors we are very concerned with the system of internal control--yet we sometimes fail as far as our concern with a GOOD COST CONTROL SYSTEM. I can cite you a case where an accountant (who by the way is an expert in auditing and taxes) lost his best client because, first, he displayed no active interest in revising their inadequate cost system, and second, when other outside help was employed he refused to certify statements based on a VARIABLE COST SYSTEM. Incidentally, the large CPA firm that helped revise the cost system (and is currently doing the audit) received a fee for the installation of over 5 times the annual audit and tax fee being received by the original accountant.

The day is upon us when we accountants must be more than mere FINANCIAL POLICEMEN--a notion that prevails with considerable tenacity in the minds of many laymen, and I am afraid perhaps unconsciously, in the minds of a few accountants. CPA firms should be adequately prepared to install a cost system appropriately adapted for each situation. This may involve: Job-Order Cost systems, Process Cost Systems, Standard Cost Systems, Direct Cost Systems, and Variable Cost Systems.

Budgeting as a Basic Tool

Now let us take a brief look at the subject of BUSINESS BUDGETING--a topic which has intrigued me for some time; particularly because it is principally through this avenue that the INDUSTRIAL ACCOUNTANT enters what has been referred to as THE SACRED INNER CIRCLE OF TOP MANAGEMENT. Budgeting involves the very essence of MANAGERIAL PLANNING, ORGANIZATION, COORDINATION, and CONTROL. The same cannot be said for historical accounting. Budgeting has come to be recognized as one of the BASIC TOOLS OF SCIENTIFIC MANAGEMENT.

Basically a business budget is the FINANCIAL EXPRESSION of the results of a PLAN OF OPERATIONS, drawn up by management, covering a specific period of time. The budget expresses goals or objectives for such items as sales, advertising, research, expenses, production, personnel, and income. The development of a budget requires that overall firm objectives be planned, and that these overall objectives be broken down in terms of the several components of the firm. OBVIOUSLY, PLANNING IS AN ESSENTIAL FUNCTION OF MANAGEMENT, AND BUDGETING IS THE BEST TOOL YET DEVISED TO ASSURE CAREFUL AND TIMELY MANAGERIAL PLANNING. The simple fact that a management commits itself to plan operations for a definite period in advance, and to FORMALLY express the expected operating results in a budget by a given date, tends to ENFORCE adequate attention to the planning function.

Planning is just as essential in business situations as in any other endeavor such as military operations, athletic endeavors, or an extended vacation. The more complex the operation the greater the need for formalized detailed plans. I have already noted that inadequate planning is one of the principal causes of business failures.

We talk about control of costs, control of income, and control of operations in general; the real question is what do we mean by control? Control presupposes that there is a definite objective or standard that we are striving toward; the regulating action necessary to assure attainment of the objective or standard constitutes CONTROL. In sales control, we must have well-defined sales goals or quotas. Historical costs alone are inadequate for effective cost control. For effective cost control it is essential that: (a) costs be identified with responsible parties, and (b) that there be standard or budget limitations against which actual costs are compared. Budgetary and standard cost techniques provide the principal managerial tools through which dynamic control of operations is possible. In short, it seems to me that budgetary techniques, coupled with a system of responsibility accounting, are the principal tools that modern management must necessarily rely upon for efficient control of operations. These tools have application in both simple and complex situations. THEIR EFFECTIVE UTILIZATION UNQUESTIONABLY WILL RAISE THE QUALITY OF MANAGEMENT IN ANY BUSINESS ENTERPRISE.

Importance of Budgeting

Now how does all this relate to the credit situation and banker-accountant working relationships? The answer may be briefly outlined as follows:

Throughout literature on budgeting, and banking as well, one finds references to the importance of budgeting in obtaining bank credit. Significantly, the last 5 lines in the Robert Morris Associates pamphlet states: "Budgets have a definite value to the businessman for planning and control, and are often required for bank credit purposes, particularly in connection with term loan applications."

Let us look inside a typical business budget to see why many leading bankers are highly impressed by them in loan situations. A budget includes a CASH FORECAST and a SCHEDULE OF FINANCING REQUIREMENTS. These two schedules indicate (a) the need for funds for some time in advance, (b) the purpose for which needed, and (c) plans for repayment. Now it is significant that these two schedules cannot be accurately prepared unless there are reasonably reliable estimates of (a) cash receipts, which goes back to a sales forecast, (b) costs and expenses for the period, and (c) plans for capital additions during the period. The banker is certainly interested in FUNDS REQUIRED AND PLANS FOR REPAYMENT. The budget provides a coordinated plan of operations providing not only particular data on these two points but adequate underlying evidences of the reasonableness of them.

It is obvious why leading banks prefer and frequently require a budget for certain loans. I understand that the RFC has a definite requirement for periodic submission of budgets for certain types of loans. The idea has application with respect to both short and long-term loans where amounts are significant. For example, it seems to me that for large WORKING CAPITAL LOANS the desirability of requiring the borrower to budget operations and make plans for repayment has considerable merit. The borrower might be required in some situations to furnish the bank with monthly statements comparing actual results with the previously submitted budget. It would certainly enable the bank to "keep on top" of what might be a "touch and go" situation. It would enable the bank to recognize early a developing condition that might be undesirable. It puts the bank in a position where something constructive might be done for the client before it is too late.

Of course, this suggestion raises the question of whether or not the banker has the courage to call the client and suggest that something definite be done before it is too late. I am reminded of an actual situation that happened within the last 2 or 3 years. The president of a medium-sized manufacturing firm, early one Monday morning, presented a request to his banker for a sizeable working capital loan--to meet the payroll, pay for raw materials, etc. Let us say a $100,000 loan was involved. Being a sizeable loan the bank naturally took a very careful look into the situation. The books had not been properly audited; consequently a leading CPA firm was asked to come in and look over the situation (at the client's cost).

Among other things the CPA's found that there were up to 18 years' supply of certain items in the inventory of finished goods. No one was aware of this condition; no one had been assigned formal responsibility for inventory control in the firm. The reason for the inventory condition was that the production man, in order to spread set-up costs over more units, consistently over-produced on each order received from sales. The net result of the loan request was that immediate steps were taken to: (a) improve the accounting system, (b) set up a system of controls, including inventory control, and (c) the establishment of a budget program. The bank provided working capital funds on a periodic basis as called for in the budget (which was kept up to date and submitted to the bank in summary); the firm undertook a planned program of inventory reduction. The final results in this situation were: (a) the development of a sound credit situation, (b) a better managed, highly profitable firm, and (c) a lifelong client for the bank and CPA.

Why Banks Appreciate Budgets

Show me a banker that would not be favorably impressed if I, as the owner of a small local business, came in some time prior to the need for funds, and went over the budget in detail, explaining:

1. When funds would be needed
2. Why the funds would be needed
3. When the funds can be conveniently repaid, and
4. Where the funds will be obtained for repayment.

THE IMPORTANCE OF BUDGETING IN BANKER–CPA COOPERATION

(Continued From Previous Page)

Again this imposes a responsibility on the CERTIFIED PUBLIC ACCOUNTANT. He is the logical professional man to help businessmen institute and develop appropriate budget and control techniques.

Personally I do not understand why the accountants as a profession have not shown more interest in the tools of management. It is hard to visualize how a competent CPA can perform an audit year in and year out without aggressively trying to interest the client in such managerial tools as budgeting, inventory control, responsibility accounting, standard costs, variable costs, breakeven analysis, and even ORGANIZATION. Here is a real challenge for the Certified Public Accountants. YOU HAVE MUCH MORE OF VALUE TO SELL THAN A HISTORICAL AUDIT AND TAX RETURN.

In closing let us ask a few questions. Is it illogical or impractical to expect two highly respected professional groups--the bankers and certified public accountants--to aggressively seek through constructive action when appropriate to IMPROVE THE QUALITY OF MANAGEMENT AMONG LOCAL BUSINESSMEN? Who in the community is better equipped through training and experience to spearhead such activities than the certified public accountant and the banker? Who would be the principal beneficiaries of such constructive activities? The banker? The accountant? -- NO, IT WOULD BE THE BUSINESSMEN AND THE COMMUNITY AS A WHOLE. A HIGHLY DESIRABLE OBJECTIVE TO WHICH NO ONE CAN TAKE EXCEPTION.

WHAT CAN A BUDGET PROGRAM ACCOMPLISH?

(Continued From Page 8)

only monthly reporting. However, other expenses which fluctuate widely and frequently, or expenses and activities which represent a great deal in the company's plans, should be reported weekly or even daily, to make sure the original plans are being followed.

No other division of the company is so distinctly a service division as the financial division. When the other departments of the company become aware of this new attitude of the accounting department and they experience the help which timely reports give them, the company will realize its fourth practical benefit.

WHAT ABOUT AUTHORITY?

To be successful, the budgeting program and accounting reporting must adhere to the organizational lines of authority. Nothing will cause a breakdown more surely and quickly than overlapping responsibilities. The budgets were developed by all echelons of management. It is now the responsibility of each to keep the costs and plans within the prescribed limits of their budgets. Report costs only to those people who have control over them.

In the beginning, the volume and detail of reports will follow the habits of your management. It is often useful to do this. However, with experience in the technique of "management by exception," many reports can be dropped, thus simplifying the reporting procedure.

In streamlined budgeting, the reports should accumulate as you progress up the line of command. As an illustration: Details for a factory department go to the foreman of the department – a copy to his superior. The superior receives a summary of all the departments under his control. His superior, in turn, receives this summary, plus a recap of the entire factory.

Thus, one report to the top executive enables him to isolate, progressively down the line, any trouble spots, The accounting for the difference between the plan and the actual results then comes from the man directly responsible for the original plan. This helps to define areas of managerial responsibilities so that credit for good performance as well as criticism for poor performance can be fairly made.

Top management is now measuring and evaluating its team as was not possible before. Its plan of action for times of distress is formulated calmly and carefully before it is needed.

Assured in its new understanding of profit-management, the company faces each day with confidence. Its executive personnel, now alert to the real needs of management, shares with understanding the problems and triumphs of management. Are you gaining these advantages from a good budget program?

ADVANTAGES OF A GOOD BUDGET PROGRAM

1. Coordinates management thinking.
2. Enforces forward thinking; encourages alternate planning.
3. Develops managerial talent.
4. Improves the utilization of accounting reports.
5. Helps to define managerial responsibilities.
6. Aids in evaluating managerial functions.

If you are receiving most of the benefits outlined above, you are to be congratulated. Your budget program is streamlined, up to date – filling its place in modern management. If you are not realizing these advantages, you should be.

CAPITAL EXPENDITURE MANAGEMENT

(Continued From Page 6)

equipment incorporates provision for interest on the capital invested, for recovery of the acquisition cost, (or depreciation) for operating inferiority which may be expected to occur with regard to the proposed equipment, as compared with still better equipment not yet on the market, and for other conceivable pertinent factors. To state the term another way, the operating disadvantage of purchasing the new equipment is the time adjusted annual average cost of this new equipment. If it were necessary to go through all of the involved mathematical computations required to reflect the factors taken into account, the formula would never be used. Fortunately, however, the constructors of the formula designed a chart to be used in this connection, and the actual computations become simple.

The following steps must be taken to determine the operating disadvantage of purchasing the new equipment:

1. A determination must be made of the service life of the proposed equipment. This is not the same, usually, as the total life, or depreciable life, but it is the period that the new equipment can be expected to remain in service for the purpose acquired. The decision as to the service life to be used is a management decision which could have a very important bearing on the final result. However, the computations can easily be made for more than one possible service life, if desired.

2. An estimate should be made of the salvage value of the proposed equipment at the end of its service life.

3. From this data, a figure can be read from a chart which represents a percentage of the acquisition cost to be used in the computation - a figure such as, for example, 13%.

4. A determination must be made of a percentage to be used for interest - presumably this would be the same in all cases, but it could be changed as conditions change. An equitable interest rate should be determined based on whether borrowed or equity capital is to be used.

5. The percentage to be used for interest - for example, 10%, - is added to the percentage, of say 13%, determined from the chart. The total, or in this case 23%, is applied to the acquisition cost of the new equipment.

6. This amount then becomes the annual operating disadvantage of purchasing the new equipment.

Perhaps a simplified example will serve to explain the method or formula a little more clearly. Let us assume the following facts:

1. No net salvage value of present equipment - that is, the cost to remove will equal the salvage value recoverable.

2. Operating disadvantage of present equipment - for next year -	$ 2,900
3. Cost of new equipment	$10,000
4. Estimated service life	10 years
5. Probable salvage value at end of 10 years	$ 1,000

The operating disadvantage of the present equipment, on a next year basis, has already been determined to be $2,900.

To compute the operating disadvantage of the proposed equipment, the salvage value has been estimated at 10% of the acquisition cost. Turning to the chart, and using a 10 year service life, we find the applicable percentage of acquisition cost to be used is 13%.

Let us assume that we have decided to use an interest rate of 10%, the annual operating disadvantage of the new equipment then becomes 23% of $10,000 or $2,300. This can then be directly compared with the $2,900 operating disadvantage of the present equipment. It indicates that the gain from acquiring the new facility would be $600 per year, or to state it another way, the cost of not making the replacement would also, of course, be $600 per year.

It seems to me that the use of the MAPI formula might have several definite advantages, as follows:

1. The formula includes provision for interest on capital invested, for future deterioration and obsolesence, and for other factors that would affect a decision to replace.

2. It was developed after a long, exhaustive study of the problems involved, has as its foundation a firm basis of theory, and the assumptions used are stated in the publications referred to. After some study, the method can be understood by a company's engineering organization, by its accounting organization, and by its top management. All should be able to understand the significance and the limitations of the figures used.

3. The formula furthermore gives a definite answer to the problem of when to replace, furnishes a dollar measure of the cost of not replacing, and at the same time provides a means of establishing priority for the most advantageous proposals.

4. The computations involved are not difficult, and the formula can be used for replacement and expansion problems, and for problems involving changes in methods, as well as for straight replacement problems.

The individuals who constructed the formula do not hold it to be the perfect answer to all problems in this connection, and there is one disadvantage which should be mentioned. Since the computations result in a absolute dollar figure of savings, it could have the effect, on someone reviewing a proposal, that the result shown is a statement of absolute fact. The reviewer, or the person having the authority to approve the proposal, should have a clear understanding of the effect and the limitations involved in the use of executive judgment or opinion applied in many of the calculations. These include the computation of the operating disadvantage of the present equipment, the estimated service life and terminal salvage value used for the proposed equipment and, of course, the interest rate applied.

From an overall viewpoint, however, the MAPI replacement formula deserves your studied consideration, before you adopt any method of replacement justification.

Other Elements

There are a few other elements which are necessary components of any really complete program for the management of capital expenditures.

The understanding and active support of top level management is important in any major undertaking such as this. Those of us in budgeting know how important this factor is in that field. In capital expenditure management, since nearly all decisions are made at a very high level, this support and understanding can be even more important.

Another point which should be mentioned is that your procedure should provide for reporting actual capital

ACROSS THE EDITOR'S DESK

(Continued From Page 2)

heart, too; in fact, she might be able to FIND the darn thing."

"Sounds like a very efficient girl".

"Maybe you think she should be running the department".

"Perhaps".

"She's 22, and is getting married in six months. Is that how you told the president you'd save us money... put 22-year old girls in charge of all departments?"

"Now Mr. Doe, I never said that at all. I didn't mean that all at, either; it seems as though you just don't want to cooperate".

"I'll cooperate. What do you want?"

"Just your cooperation. We can find many little ways to save you money. For instance, where is your water cooler located?"

"Right over there. Thirsty? I've got a little stuff right here that . . ."

"No, no! I mean, location of a water cooler can be very important, when it comes to saving money. Now, at Whoozis Company, we saved several hundred dollars a year in time by putting the water cooler in the CENTER of the department, instead of way up at the end."

"What about salted peanuts?"

"What?"

"I said, 'what about salted peanuts'. People drink water because they're thirsty; seems to me you could save more by outlawing salted peanuts on the job than by just putting the water cooler closer so they can get a drink more often".

"I never heard of such a thing....sounds plausible, though".

"See that girl right over there?"

"You mean the one right next to the water cooler?"

"Yes. That's 'Miss Peanut-Eater'. She eats 'em all day. Put her desk right next to the water cooler. Pretty efficient, eh?"

"Why don't you just replace her with a non-peanut-eater?"

"She IS a replacement. The other one ate pretzels. They're noisy!"

"Oh well, I just mentioned that as an example. Now you take letters, for instance. You know, we have saved some companies up to thousands of dollars a year by cutting down on the length of their letters...and they didn't even notice any difference!"

"You mean they didn't know you were chopping down their letters?"

"No, I mean they never noticed any difference in the effect of their letters. The shorter ones did just as good a job as the longer ones!"

"How do you know?"

"They told us!"

"I thought you said they never noticed ... what makes you think our letters are too long?"

"EVERYONE'S letters are too long; everywhere we go, we find letters are too long."

"Have you seen any of our letters?"

"That's what I'm here to ask for; all I want, Mr. Doe, is your cooperation. I should not like to report to your president that you are unwilling to cooperate."

"How much are you charging us?"

"I don't ordinarily discuss such matters with the personnel, but I don't mind telling you that we agreed upon a fee of $100 per day."

"Well, you've cost us about ten bucks already and I don't see that you've accomplished much. That's not very efficient, is it?"

"You're just being difficult. Don't you want to save money?"

"Now wait a minute. You want to save me money, and you need my cooperation to do it. Right? So you've got to convince me, first, that you've got something to sell. Suppose you just start with that, and forget the president and everyone else. Now, Mr. Smith, what is it you wish to see me about?"

"Oh, alright. Mr. Doe, I'm Mr. Smith and I represent the Smith Associates, efficiency experts. I think we can save you money".

"I don't".

"We do this by studying your office procedures, and installing money-saving steps."

"You mean like steps to the water cooler?"

"We have a long record of satisfactory service. At one company, we saved $20,000 a year by showing them how to reduce the length of their correspondence."

"Gads! How were they corresponding ... by Western Union?"

"A revision of your filing system alone can save thousands on the present labor cost of your system".

"Do the business schools turning out file clerks know you're going around the country saying this sort of thing?"

"And such matters as lighting, wall colors, desk design and larger mirrors in rest rooms can save you dollars of expense and increase your profits".

"I'm glad you finally mentioned that word, profit! Now, Mr. Smith, that's a word I understand, and that's what I'm here for ... to help increase that profit. And I do that by running an efficient department, and using my own time efficiently. That I accomplish by scheduling my work, planning my activities, and finishing everything I start. The right way to get information from me is to call my office for an appointment; say what it is you want to talk about, to give me a chance to be prepared; then at the appointed time get started and follow to a conclusion. Mr. Smith, did you wish to make an appointment to discuss the efficiency of this department?"

"Why .. well, that is .. yes."

"Alright; I believe by 10:00 o'clock tomorrow I can have myself prepared for an efficient discussion on efficiency. Good day, Mr. Smith".

"Good day, Mr. Doe. Thank you, Good day."

"Oh, Mr. Smith!"

"Yes?"

"Here's that darn organization chart. You were sitting on it all the time!"

---G.A.B.

CAPITAL EXPENDITURE MANAGEMENT

(Continued from Previous Page)

expenditures incurred, as compared with plans. This technique is in use in many companies, and it is a control feature which should not be overlooked.

Finally, in order to be really comprehensive, your program should include a provision for post-audit of investment decisions. This is not done in many companies. Management almost never knows whether savings attributable to a specific investment proposal are actually realized. Methods of doing this would have to be worked out for each company, possibly some sort of a test-check provision is the answer. Maybe a certain proportion of the proposals could be re-examined after a year's experience to determine the actual results. This is a refinement which you should try to incorporate into the overall plan, not to be used to tie someone to a whipping post because of a poor decision, but to be used to discover defects in methods, and to improve the techniques used.

DECENTRALIZATION OF THE COMPTROLLER'S FUNCTION

(Continued From Page 10)

to secure the understanding and cooperation of all concerned, and to assure ourselves of as nearly a finished product as possible.

Centrally, also, we have made studies of the requirements for financial analysis and profit planning which will provide the foundations by which our general management can evaluate the divisions' financial plans and performance.

ESSENTIAL BUDGETARY PROCEDURES

We call this work profit planning, rather than "profit budgeting", but certainly careful budgetary procedures are essential to set up attainable objectives and to measure current progress against such objectives. We are going to maintain a central staff for continuing work in this area. Because, further, inherent in the philosophy of decentralization is the freedom given the management of each division to purchase parts and components on a competitive basis either from other divisions, or from outside vendors, and because opposing this freedom are such captive items as engines, transmissions and bodies, we set up a central group which is known as the Product Cost Control Department, which works in the area of reconciling differences in prices between divisions, as well as performing other functions in connection with cost development, control and analysis. Our internal audit department has been greatly expanded and we have enlarged the extent of our audits to include a complete audit of the decentralized accounting system.

In all of these changes resulting in our hiring a large number of new employees and in the appointments we have made to these new positions of divisional comptrollers and their staffs, we have kept in mind the absolute necessity of maintaining the morale of our own accounting department. We knew we had developed a sound central accounting system over the years and that we had a trained and competent group of supervisors, and we believed from the outset of this program that many more and greater opportunities would be offered for advancement for all of our supervision. This has already proved to be the case. Each one of our 12 divisional comptrollers, and our engineering comptroller has had prior experience with Chrysler. Nine have been with us for many years and started in clerical accounting jobs. As far as possible men have been, and will continue to be promoted from factory accounting work to the staffs of our divisional comptrollers. We feel that there will undoubtedly be many more job opportunities ahead because our program in not yet completed, and it is our aim to secure or develop the men we actually need for the job. We do not wish to over-build our central or divisional staffs now, and later when the organization job is done, be faced with cutting down such staffs.

GROWING IMPORTANCE OF BUDGETING

In reviewing our recent experiences at Chrysler, I have tried to emphasize the expanding role in the automobile industry of the cost accountant. And this is equally true of anyone engaged in budget work, wherever assigned, because the new intensified competition we are meeting, the tremendous growth of capital expenditures throughout the country, recent labor developments, particularly in the automobile industry, all emphasize the need to spend money and to spend it wisely. After all, when the company is spending money and expanding, as auto companies are today, there is little room for error. Management must have a good picture of results. It must have all areas where money is to be spent fully highlighted and pin-pointed. It must know how its investments work for it in every part of the business, and Management must know where further investment will produce the best results.

Certainly the time has passed when it was sufficient to know if a business overall was making or losing money. Management today must know how each aspect of its business is doing. The day has passed when a business could be conducted from simple, periodic profit and loss statements. And that is one of the inherent principles of divisionalization, because each unit must be financially responsible, and in no other way can you obtain a worth-while profit measurement.

In the work we have done in the comptroller's department at Chrysler we feel we have made some progress. But we have a long way to go. I am confident that an analysis of our operating statements over the next several years will show that we have made further substantial progress.

EXCERPTS FROM CHAPTER NEWSLETTERS

The deadline for this issue of BUSINESS BUDGETING prevents us from having the opportunity of reprinting the many fine synopses of chapter talks usually read in the chapter newsletters. With September being the beginning of the new chapter season and with most of the chapters holding their meetings late in the month, the newsletter editors simply have not had time to get into print. We are, therefore, able to present only one newsletter report on a chapter meeting, and that comes from the typewriter of CHESTER JABLONSKI of the Chicago Chapter.

"Both members and guests thoroughly enjoyed Mr. Mauck's informative and interesting talk on "What Management Expects from the Budget Director." In addition to such fundamental attributes as sincerity, integrity, humility, courtesy, wisdom and charity, Mr. Mauck suggested that the Budget Director have these qualities:

1. A passion for anonymity
2. Salesmanship
3. Diplomacy
4. Good teaching ability
5. Technical proficiency and an open mind
6. Ample statistical background
7. Reporting skill and an investigator's curiosity
8. Organizational skill
9. Mature judgement to offer suggestions and advice as occasions demand

One of the most significant points of Mr. Mauck's talk presents a problem common to all Budget Directors, "How to Convince a Department Head or Manager that His Costs Can Be Reduced." Since each of us has had first hand experiences in this respect and no one formula can be applied, each member is encouraged to submit in writing to this newsletter his past or present approaches, solutions and theories relative to the problem. All such replies will be compiled into a report and published for the benefit of all budget directors.

Particular emphasis should be placed on the technique of the approach and incentives."

NATIONAL OFFICERS AND DIRECTORS CONFER AT FALL MEETING IN WISCONSIN

The Fall meeting of NSBB National Officers and Directors was held at the beautiful Butte des Morts Country Club at Appleton, Wisconsin with the above gentlemen from the various chapters devoting their efforts toward a better organization. The gentlemen pictured above are: Left to right, rear row: L. Whiting - Louisville, S. Allender - Cleveland, C. Manteuffel - Louisville, D. Cartland - Chicago, C. Nagel - St. Louis, J. Van Camp - Milwaukee, H. Mason, National Vice-President - Milwaukee, K. Crawford - Indianapolis, E. Mauck - Indianapolis. Second Row: B. Schaller - Twin-Cities, S. Grady - Milwaukee, E. Yount - Chicago, J. Dever - Detroit, R. Serenbetz - New York, W. Moore - Cincinnati, V. Millar - Philadelphia, L. Hawkins - Member-at-Large, A. Hewlett - North New Jersey. Seated: D. Borst - Milwaukee, W. Campbell, National Treasurer - Dallas, C. Eckelkamp, National First Vice-President - New York, W. McGuire, National President - Milwaukee, M. Aichholz, National Secretary - Cincinnati, Miss Van Treeck (Mr. McGuire's Secretary), C. Reynolds, National Vice-President - Cincinnati.

TO BUDDING AUTHORS – BE ORIGINAL!

When preparing articles for Business Budgeting magazine, our authors are asked to make certain all material being presented is either completely original, or has been cleared for publication in this magazine. Should you wish to include non-original material in your article, it is usually necessary to secure approval of the original author AND the publication in which the material has previously appeared. Most published material is protected by copyright and should never be used without approval.

The editors make every effort to see that full credit is given for material which has been previously published, but must rely on individual authors for complete observance of this basic consideration. Your cooperation is appreciated.

DID YOU KNOW THAT:

It has been reported by S. S. ALLENDER, National Publicity Director, that the New DETROIT CHAPTER has received some very favorable publicity in the local Detroit papers concerning their formation and their monthly meetings. Since we can't hope to reach everyone we should on a personal basis, we should do everything possible to promote the National Society for Business Budgeting through news articles, meeting announcements and personals concerning members. Be sure to forward the clippings from the papers or magazines to S. S. ALLENDER, Harshaw Chemical Co., 1945 E. 97th. Street Cleveland 6, Ohio. If clippings are not available send the text of the articles.

All of us join in congratulating Chicago chapter member H. E. BUTTS on his new position as Vice President, Treasurer and Controller of United Wallpaper, Inc.

A LOCAL CHAPTER PRESIDENT'S MESSAGE

Being privileged to see all of the chapter newsletters we were pleased to read the many fine messages forwarded to the local members through this means from the presidents of the local chapters. We have selected a typical "chapter president's message" as representative of the enthusiasm with which these gentlemen attack their duties. This message happened to be written by CARL NAGEL, President of the St. Louis Chapter; and typifies the text of others.

"During the 1956-57 year I have pledged the Chapter to increase its membership to 42. This may be ambitious but it can be done if we all get together and work for that goal. It means that we need one new member for each member we now have. Let's start to look around now for the man who ought to be a member or the company that should provide one and hasn't. Your personal contact in this respect is more important than any membership drive.

An item of importance to start thinking about is our contribution to the April, 1957 issue of "Business Budgeting." There are a number of members who can write on the subject of Budgeting. Just take a few minutes and see what you can produce. The deadline - February 15, 1957. Articles are earnestly solicited. Remember we have an annual quota of three articles. Let's make this project a year-round activity. Let's get our quota for the 1957-58 year before the end of this year.

In line with this subject is the matter of a new text book on Budgeting which the National Society is preparing. Each chapter has been requested to write the section which its members feel qualified to contribute. The Details will be found in the Convention issue of "Business Budgeting." Surely St. Louis Area Chapter will be represented in this endeavor."

CARL A. NAGEL

REPORT ON THE DIRECTOR'S FALL MEETING

The Fall meeting of the National Officers and Directors was held this year at the beautiful Butte des Morts Country Club at Appleton, Wisconsin with a substantial number of officers, directors and guests able to take advantage of National President BILL McGUIRE's hospitality. Wisconsin gained many new friends through the wonderful treatment the guests were accorded during their brief stay.

The business side of the activities included the adoption of the reports of the Election and Auditing committees; the acceptance of the Treasurer's and Secretary's reports, and the agreement reached on the national organization's budget for the current year.

Another committee to report was the Research committee, and considerable discussion was held regarding the progress of the text book on budgeting. Mr. BORST, chairman of this important committee, again appealed to the chapter presidents for additional material. At the present time, the majority of the material has been submitted by the Milwaukee, Chicago and Philadelphia chapters, and, in order to get a cross-section of opinion on which a good text book can be prepared, all members are requested to submit material on any subject included in the outline. The chapter presidents were requested to appoint a Chapter Research Committee, if they have not already done so, whose duty it would be to obtain contributions from the chapter members for this important work of the national organization. Mr. LES HAWKINS was appointed to make the same request of the members-at-large. Incidentally, material can be solicited from persons outside the National Society for Business Budgeting, as well as members of our chapters.

The Education committee chairman, MR. C. P. REYNOLDS, requested that each chapter appoint a chairman to assist his national committee with their work of cooperation with educational institutions in establishing BUDGETING as an addition to the college curriculum.

Considerable discussion was centered around the reports of the Executive and Growth committees concerning the problems of a rapidly growing organization and the consequent complications of executive direction. MR. VISCH MILLAR, Chairman of the Growth committee, will send each National Director a copy of his report for their study so that further discussion can be held at the next Director's meeting.

The members-at-large were represented by MR. LES HAWKINS, and he reported that the first separate mailing to those members would take place in a few days. The mailing will include copies of the various chapter's newsletters and brochures, along with a roster of the members-at-large.

MR. HAL MASON, Chairman of the Chapter Formation committee, reported that Mr. C. C. BENEDICT was appointed to the committee to assist with this activity in the Eastern section of the U.S. Present activity is centered in the cities of Los Angeles, Denver, Pittsburgh and Dayton, however, any number of other cities are also in the running for the privilege of being the next chapter in the NSBB fold. Mr. MASON also reported that the National brochure should be ready for distribution within a short time.

Next the report of the Chairman of the Publicity committee, Mr. S. S. ALLENDER was submitted. In it, Mr. ALLENDER asked that all chapters forward copies of any published articles concerning the National Society for Business Budgeting and its members. He also requested the name of the chapter's local publicity chairman. Another item he has taken under his wing, is the publication of each chapters meeting date, time and location so that traveling members may have the opportunity of attending meetings of the chapters if they coincide with their visits. For this he enlists the aid of the chapter secretaries. Please cooperate.

The report of the Editor of BUSINESS BUDGETING requested that the chapter presidents cooperate fully in maintaining the schedule of deadlines established for the submission of articles for publication. In the discussion that followed, Mr. HAWKINS suggested that comments from readers concerning articles be printed in following issues of BUSINESS BUDGETING. (Editor's note - We would be only too glad to see a rip-roaring argument develop concerning a published article, and we welcome correspondence.)

As we have reported before, but it is worth repeating, the next National Convention will be held in Chicago, and it has now been reported by Mr. YOUNT, General Chairman, that it will be held at the Palmer House.

Following Chicago, the National Convention moves to New York in 1958, and the National Directors voted the 1959 convention to the sponsorship of the TWIN-CITIES Chapter.

As you can read between the lines, there was no time for golf on this day, as dusk was setting in by the time adjourment was motioned and seconded. We pay tribute to the hard-working members of the various committees and officers in the only way we know, and that is by saying - "Thanks, we really appreciate your efforts."

-- L.P.H.

NEW MEMBERS

With the advent of the new Chapter year, activity of the Membership Chairmen of the various Chapters is starting to bear fruit. The following list contains the names of twenty-four new inductees into the NSBB fold.

JOE F. LaFEBVRE, Budget Specialist, U. S. Naval Repair Facility, San Diego, California

FREDERICK M. EISNER, Controller, Weiss & Klau Company, New York, N. Y.

WILSON T. SENEY, Management Consultant, McKinsey & Co., New York, N. Y.

RICHARD G. HALLER, Manager of Budget Dept., W. R. Grace & Co., New York, N. Y.

PHILIP L. KELLER, Asst. to Comptroller, Bristol-Meyers Prod. Div., Hillside, N. J.

STEWART F. MITCHELL, Br. Planning Mgr., Allstate Insurance Co., Skokie, Illinois

WARREN E. BAILEY, Budget Supervisor, Combustion Eng. Inc. – Chattanooga Div., Chattanooga, Tenn.

CHARLES A. KENDALL, Budget Analyst, The Schaible Co., Cinti., Ohio

MORLEY P. THOMPSON, Assistant Controller, The Baldwin Piano Company, Cinti., Ohio

ROBERT S. ALBRECHT, Planning Mgr., Allstate Insurance Co., Dallas, Texas

GLENN A. WELSCH, Associate Professor of Accounting University of Texas, Austin, Texas

JOHN H. EDWARDS, JR., Admin. Accountant, Temco Aircraft Corp., Dallas, Texas

E. K. BOATRIGHT, Budget Accountant, Three States Natural Gas Co., Irving, Texas

RAYMOND F. OBROCK, Comptroller, Esso Research & Eng. Co., Elizabeth, N. J.

GUSTAV F. BRUNS, Budget Director, Personal Prod. Corp., Milltown, N. J.

NEW CHARTERS COMPLETED FOR ALL NSBB CHAPTERS, OLD AND NEW

By the time you read this, your local chapter president will have returned from the Fall meeting of the officers and directors with the new chapter charter in his possession. When you see the job that has been done in making the NSBB chapter charter something to be proud of, you will know why we are publishing the picture of the two gentlemen responsible for the charters. Standing closest to the charters is Visch Millar, whose idea it was, and the other gentleman is Mel Aichholz who carried out the idea to its fulfillment. The chapters should be real proud of these new charters, and should have them on display at all meetings. We owe both of these gentlemen a vote of thanks for a superb job - one for conceiving the idea, and the other for getting the job completed.

LEE M. HALE, Senior Acct. Budget & Reports, Merck & Co., Inc., Rahway, N. J.

CHARLES EARL PETERSON, Cost Accountant, Scott-Atwater Mfg. Co., Minneapolis, Minnesota

ROBERT W. CAMPBELL, Budget Analyst, Northwest Airlines, Inc., St. Paul, Minn.

LEON J. FROST, Mgr. of Cost Analysis, Green Giant Co., LeSueur, Minn.

PAUL E. FRANK, Industrial Accountant, Ernst & Ernst, Chicago, Ill.

KARL A. OLSON, Director of Budgets, IBM Corp., New York, N. Y.

BRUCE S. SCHRICKER, Supervisor Budgets & Statistics, Union Starch & Refining Co., Columbus, Ind.

Z. R. RENT, Mgr. of Gen. Accounting, Ball Bros., Co., Inc., Muncie, Ind.

N. J. JUST, Secretary & Controller, Brauer Bros. Shoe Co., St. Louis, Mo.

JOHN BERNARD GLANT, Peat, Marwick, Mitchell & Company, St. Louis, Mo.

GORDON J. VANDENBERG, Asst. Controller, Snap-on Tools Corp, Kenosha, Wisc.

ANDREW STARINSKY, Director of Budgets, Bryant Mfg. Co., Div. of Carrier Corp., Indianapolis, Ind.

JOSEPH S. TESORIERO, Staff Accountant, The Brooklyn Union Gas Co., Brooklyn, N. Y.

THOMAS E. EAGAN, Supervisor of Gen'l Accounting & Budgets, The DeLaval Separator Co., Poughkeepsie, N. Y.

LOUIS E. ZASTROW, Supervisor of Budgets & Internal Audit, Badger Meter Mfg. Co., Milwaukee, Wisconsin

CLIFFORD H. KUEHN, Budget & Forecast Analyst, R. R. Donnelley & Sons Co., Chicago, Illinois

JOSEPH R. SCHLOEMER, Accounting Supervisor, American Air Filter Co., Inc., Herman Nelson Div., Moline, Ill.

GEORGE M. BERCOWY, Budget Chief-Chemical Div., Merck & Co., Inc., Rahway, N. J.

GEORGE D. WILSON, Supervisor of Budget Div., Johnson & Johnson, New Brunswick, N. J.

F. JUDSON SNELL, Dept. Head of Planning, Minneapolis-Honeywell Regulator Co., Minneapolis, Minn.

FRED J. KIEFFER, Budget Director, Wilson Frt. Forward Co., Cincinnati, Ohio

JOHN J. STEVENSON, Financial Analyst, Trailmobile Inc., Cincinnati, Ohio

PAUL M. HERRMANN, Budget Statistician, Allison Div. of General Motors Corp., Indianapolis, Ind.

JEROME R. WOIT, Budget Analyst, Kearney & Trecker Corp., Milwaukee, Wisc.

ALLAN L. RUDELL, Chief' Accountant, Minneapolis-Honeywell Regulator Co., Minneapolis, Minn.

Members-at-Large:

RENE P. MANES, Manager of Budgets and Valuation Div., Venezuela Atlantic Refining Co., Caracas, Venezuela.

FRANK J. TAYLOR, Budget Director, Public Service Co. of New Mexico, Albuquerque.

TRI-CHAPTER MEETING SLATED FOR NOVEMBER

Indianapolis NSBB members will be the hosts for the Tri-Chapter meeting of the Louisville, Cincinnati and Indianapolis chapters this year. However, it is perhaps truer to call the meeting this year a quad-chapter meeting, because Indianapolis has extended an invitation to the St. Louis chapter members to participate in the one day affair.

The day after "Election Nite" will witness the migration to Indianapolis - First, to visit the Eli Lilly Company with Buck Mauck acting as host; Second, to enjoy the fine food served at the Hotel Warren; Third, to hear Mr. Ed Bugge speak on the subject, "Economic Forecasting for Business Budgeting Purposes;" and Fourth - to join in the fine fellowship NSBB has to offer at any of its gatherings.

MEET THE CHAPTER OFFICERS FOR 1956–57

In the previous issue of BUSINESS BUDGETING a complete list of all National Officers and Directors was published, and now we would like to present the names of the principal officers of the local chapters. Chapter doings are the life-blood of any national organization, and the local officers with the assistance of their committee members are the donors of this life-giving blood. We speak for the National organization in wishing them the greatest success in their plans for this chapter year.

BRIDGEPORT CHAPTER

President	Edward W. Newton – High Standard Mfg. Co.	Secretary	J. Paul Gavell – H. O. Canfield Co.
Vice President	Henry F. Kalweit – Dictaphone Corp.	Treasurer	Benjamin F. Hamilton – Edwards Company

CANTON CHAPTER

President	Earl E. Long – Borg-Warner Corp.	Secretary	Ward M. Tuttle – Alliance Machine Co.
Vice President	DeWitt C. Cox – Timken Roller Bearing Co.	Treasurer	Vacant at present

CHICAGO CHAPTER

President	Donald L. Cartland – A.B. Dick Co.	Secretary	Chas. S. Holsteen – United Air Lines, Inc.
Vice President	Everett E. Yount – Helene Curtis Ind., Inc.	Treasurer	Richard J. Thomas – The Brunswick-Balke-Collender Co.

CINCINNATI CHAPTER

President	Walter A. Moore – The Miami Margarine Co.	Secretary	George W. Gausing – George Wiedemann Brewing Co.
Vice President	L. P. Haverkamp – Trailmobile, Inc.	Treasurer	Chas. J. Deiterman – Newport Steel Corp.

CLEVELAND CHAPTER

President	Carl O. Wessman – Harris-Seybold Co.	Secretary	Glenn H. Shakley – Body Bros., Inc.
Vice President	Samuel S. Allender – Harshaw Chemical Co.	Treasurer	Delbert D. Arbogast – American Greetings Corporation

DALLAS CHAPTER

President	L. J. Zurlis – Johnson & Johnson	Secretary	Robert C. Hamilton – Seabord Oil Co.
Vice President	D. W. Holder – British-American Oil Prod. Co.	Treasurer	E. Blair Patton – C & I Protection, Inc.

ABOUT OUR AUTHORS

A. G. AVANT is a 1949 graduate of Northwestern State College of Louisiana with a B.A. degree. For the next two years he was Office Manager for a construction corporation, and joined Illinois Tool Works in 1951, having since filled several capacities in the Controller's Division. He is presently Divisional Controller of the Tool Division. He served in the War with the 11th Airborne Division.

A. H. FRANKING started out as a music instructor, who "reformed" when he found the romance of accounting more interesting than music. He then studied accounting at the Northwestern University evening division, and has since served as Budget Director for Jefferson Electric Company, and Ideal Industries. He is presently with the Benjamin Electric Manufacturing Company, Des Plaines, Illinois. His wife is also an accountant.

G. A. WELSCH, professor of Accounting at the University of Texas, has taught Budgetary Control and related accounting subjects for several years, and serves in a consulting capacity for individual business firms during the school vacation. He has authored several articles for accounting publications, and is the author of a book on budgetary control to be published soon by Prentice Hall. He received his Master of Business Administration from Oklahoma A & M, and Ph. D. in business at the University of Texas. He is a practicing CPA in Oklahoma and Texas. His military service covers six years in the Signal Corps where he attained the rank of major.

C. P. (CHICK) REYNOLDS is a past-president of Cincinnati Chapter, NSBB, past national Director and now national vice-president. A native of Evanston, Illinois, he is a graduate of Iowa State College, where he received a Bachelor of Science Degree in 1937. He has been with the General Electric Co., A. O. Smith Corporation, Ford International, and is now general Controller of Trailmobile, Inc. During the war he served in the Navy as Supply Officer on a carrier. As a father of three children, has activities extend beyond NSBB into the field of Boy Scout and other youth activities.

IT MIGHT WORK, AT THAT!

The old-timer, bent weary, dejected, hobbled painfully to the bar.

"What's the trouble?" asked a stranger. "You look bad."

"It's Yoorz," the old timer moaned. "I've got a terrible bad case of yoorz."

"What's yoorz?" the stranger asked, puzzled.

"A double Scotch, thanks," said the old-timer, straightening up.

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